GOVERNMENT OF ALBERTA

SUBMISSION TO THE GOVERNMENT OF CANADA CONCERNING PROPOSED CHANGES TO THE NATIONAL TRANSPORTATION ACT

October, 1985

Alberta

GOVERNMENT OF ALBERTA

SUBMISSION TO THE GOVERNMENT OF CANADA CONCERNING PROPOSED CHANGES TO THE NATIONAL TRANSPORTATION ACT

Alberta Economic Development

October, 1985

FOREWORD

In July of 1985, the Honourable Don Mazankowski, Federal Minister of Transport, issued a discussion paper entitled, Freedom to Move: A Framework for Transportation Reform. The paper contains proposals aimed at reforming Canada's transportation system, from an economic regulatory point of view.

In his introductory remarks, the Minister asked for comments on his proposals and promised further discussion before introducing draft legislation to Parliament. The Government of Alberta agrees that an overall review of Canada's transportation system is timely, and appreciates the opportunity of commenting upon the proposed changes through this paper.

Alberta Economic Development
October, 1985

CONTENTS

	Page
EXECUTIVE SUMMARY	i
1.0 INTRODUCTION	1
PART I: REQUIREMENTS AND POLICIES	5
2.0 ALBERTA'S TRANSPORTATION REQUIREMENTS	7
2.1 Background	7
2.2 Transportation of Raw Materials	7
2.3 Transportation of Processed and Manufactured Goods	11
2.4 Freight Distribution Services	11
2.5 Passenger Transport	12
2.6 Basic Levels of Service	13
3.0 IMPACT OF ECONOMIC RESTRUCTURING ON ALBERTA	14
3.1 Trends	14
3.2 Implications	14
4.0 GENERAL POLICY ISSUES	19
4.1 Basic Objective of a New Act	19
4.2 Increased Reliance on the Market Place	19
4.3 Multimodalism, Mergers and Acquisitions	21
4.4 Modal and Regional Differences	22
4.5 Discriminatory Transport Policy	23
4.6 Compensation for Imposed Public Duties	24
4.7 Role of Federal Crown Corporations	27
4.8 Federal Investment Programs	28
4.9 Sustainability of the Transport System	31
4.10 Decentralization of Federal Programs	33
4.11 Ministerial Policy Direction	33
4.12 Information	33
4.13 Education and Research	34
4.14 Review and Assessment	34

PART II: SPECIFIC ISSUES BY MODE 37
5.0 RAIL FREIGHT ISSUES 39
5.1 Introduction 39
5.2 Proposals to Increase Competition 47
5.3 Proposals to Increase Shipper Protection 50
5.4 Branch Line Services 52
5.5 Reduction of the Freight Rate Burden on Western Canada 53
5.6 Other Rail Issues 56
6.0 AIR TRANSPORTATION ISSUES 56
6.1 Introduction 56
6.2 Regulation of Entry 56
6.3 Ownership and Financial Requirements 57
6.4 Regulation of Tariffs and Pricing 58
6.5 Regulation of Exit 58
6.6 Service to Remote Locations 59
6.7 Powers of Retaliation Against Foreign Carriers 59
6.8 International Routes and Bilateral Route Negotiations 60
6.9 Airport Ownership and Operations 60
6.10 Ticket Tax 61
6.11 Cargo Services 62
7.0 MARINE TRANSPORTATION ISSUES 62
7.1 Introduction 62
7.2 Shipping Conferences Exemption Act 63
7.3 Canadian Ports Policy 63
7.4 Marine Freight Transportation in the North 65
7.5 Coasting Legislation 65
8.0 EXTRAPROVINCIAL TRUCKING ISSUES 67
8.1 Introduction 67
8.2 Motor Vehicle Transport Act 67
8.3 Part III - National Transportation Act 68
8.4 Other Issues 68
9.0 COMMODITY PIPELINE ISSUES 69

EXHIBITS

		Page
1	Alberta Exports - Top 20 Commodities, 1984	8
2	Rail Costs as a Percentage of Selected Export Commodities	10
3	Recommended National Transportation Policy Objective	20
4	Annual Transport Infrastructure Costs and Revenues	30
5	Railway Sustainability	32
6	Distance to Export Point for Major Commodities	40
7	Selected Commodities Moving Into and Out of Alberta: 1973-1985	42
8	Traffic to U.S.	43
9	Alberta Burden Study Results: 1979 and 1982	44
10	Total Tons Loaded - By Region	46

EXECUTIVE SUMMARY

The Government of Alberta agrees with the basic position of the Freedom to Move paper that the Canadian transportation system needs to be completely overhauled to meet the harsh, competitive environment of the 1980's and beyond. The orientation of the proposed changes to the needs of the users of transportation is appropriate and consistent with today's requirement for lower cost and more efficient transportation services.

The economic restructuring now underway means that the old approach - regulations, investment strategies and role of government - must be improved drastically or replaced. Greater reliance on individual and corporate initiative in the market place will be required; to achieve this, a re-balancing of the respective roles of the private sector and government is necessary.

While Alberta is confident that the transportation system can handle increased competition in many sectors and modes, Alberta recognizes that the need to protect certain user groups, communities and regions will not disappear. But such protection must become the exception, not the rule.

Part I of this report (Chapters 2, 3 and 4) provides an overview of Alberta's transportation requirements, the impact of current and future economic restructuring on the province, and specific policy items of importance.

Alberta has specific transportation requirements based on its location far away from markets and the types of goods produced here. Alberta needs the most operationally-efficient and least-cost transport system possible. Raw materials and processed and manufactured goods in most cases must move by rail and must compete with those exported by countries which have a locational advantage. Unfortunately, the

unconstrained pricing freedom given Canadian railways through the 1967 National Transportation Act has resulted in captive shippers in Alberta bearing a disproportionate and onerous share of railway overhead costs.

Passenger transportation also is vitally important to Alberta, particularly where tourism, the movement of professional personnel, and commuting are concerned.

The economic restructuring now underway will make it much more difficult for Albertans, and Canadians in general, to be competitive. Major problems are increasing protectionism, the relative strength of the Canadian dollar, the excess world-wide supply of commodities exported by Alberta, and the emergence of newly-industrialized countries. It will be essential that the excessive rail freight rate burden on western Canadian shippers be alleviated; that transportation contributes to regional economic development objectives (in Alberta's case, the growth and diversification of the economic base and upgrading of goods prior to export); that regional differences are recognized through a transport policy sufficiently comprehensive and flexible to accommodate the needs of all regions; and that the roles of the private and public sectors in the transport market place be harmonized.

With regard to this final point, governments must carefully manage their involvement by balancing the need for public support of transport facilities and operations against the adverse effects on government finances and the disruption of the market place. The Federal Government should be concerned with the sustainability of the transport system over time, and with the distortions caused by uneven government investment in transport infrastructure. These distortions continue to place the rail mode, and western shippers, at a serious disadvantage.

Alberta believes that the basic objective of an effective national transport policy should be to provide the users with an efficient, adequate and suitable system at the lowest possible cost, taking into consideration regional social and economic development objectives. The necessary re-balancing of private sector and government roles to accomplish this basic objective can be best accomplished as follows:

Increased Reliance on the Market Place:

Much of the Canadian transport market place is sufficiently mature to place greater reliance on market forces. However, where there is a lack of intra- and intermodal competition, reliance on market forces may not yield economically or socially-desirable results. Regulation should be applied only where absolutely necessary and far more reasonably and effectively than in the past - and at a lower cost to the user.

Multimodalism, Mergers and Acquisitions:

Efficient, low-cost multimodal transportation is essential to Alberta's economic development objectives. But the development of multimodalism should come about primarily through competition, not through widespread mergers or acquisitions.

Modal and Regional Differences:

Policies, and such regulatory criteria as are required, will have to be developed for each mode and within each mode, with a view towards being sufficiently flexible to accommodate the needs of users in the various regions.

Discriminatory Transport Policy:

The old approach to transport policy has resulted in the burden of rail freight rates being shifted to western Canadian captive shippers. Furthermore, the rail mode, upon which Alberta depends so much, has been expected to recover all of its infrastructure costs, thereby creating a large, overhead, fixed-cost component. A study completed in July of 1985 on Alberta's rail rates and costs (Alberta Economic Development, Burden Study: 1982 Alberta Rail Traffic) shows that, even with losses on grain shipments, the railways recovered, from traffic to and from Alberta, a contribution to overhead costs in an amount equal to 34 per cent of variable costs directly assignable to that traffic. By comparison, throughout the total Canadian system the railways only received a contribution equal to 6 per cent of their total variable costs. In order for Alberta shippers to remain competitive in world markets, steps must be taken to reduce this freight rate burden.

Compensation for Imposed Public Duties:

Legitimate public duties imposed by governments on carriers should be clearly identified, and full compensation paid. In some instances, a bid or tender system might be the appropriate tool. Alberta expects the services now supported by federal subsidies - altered as required by changing circumstances - to continue in operation, funded by the Federal Government.

Payment mechanisms are also of prime importance, as demonstrated by the economic distortions caused by the Western Grain Transportation Act. The WGTA also illustrates the importance of careful definition. The current definition of grain and grain product "exports" may encourage other countries to apply countervailing duties and quotas. Furthermore, because the definition excludes the Port of Seattle from those eligible to handle such exports, shippers using containers

through Vancouver often are faced with shortages, and must therefore pay the cost of positioning empty boxes.

Once the requirement for a service is established, the key factors should be user need and ability to pay, cost reduction, service improvement and flexibility. Alberta would like to have a role in the development of the required specifications.

Role of Crown Corporations:

If greater intramodal competition is to be encouraged, the positions and roles of federal crown corporations will have to be reviewed and, in some cases, altered. Alberta believes that the position and role of each federally-owned transportation company should be reviewed and, in some cases, altered in accordance with changing circumstances. Crown corporations should: have as their objective the maximization of profits; be compensated for performing uneconomic services required in the public interest; be provided with performance targets based upon their private sector competitors; divest themselves of most of their non-transportation assets; and be prohibited from acquiring - except in special circumstances - companies offering competitive service. Application of these guidelines would allow crown corporations to fulfil their mandate, without impairing their ability to compete effectively with their private sector counterparts. Since the objective of the new policy is to put greater reliance on the market place, the rules of that market place must be the norm where pricing, investment, success and failure are concerned.

Federal Investment Programs:

When making transport investment decisions, or managing investment programs, the Federal Government should take into consideration regional economic development objectives and the potential impact on the transport market place. This issue is not addressed in Freedom to Move but is of great importance to the west. Alberta also suggests that the provinces concerned should be consulted fully prior to the

elimination or reduction of any existing program; that differences in cost recovery should be considered when investment (or disinvestment) decisions are made; and that a publicly-available data base should be compiled to facilitate intelligent decisions on investment and cost recovery.

Sustainability of the Transport System:

The removal of the excessive cost burden from western transportation users is imperative, but must be accomplished without impairing the viability of the railways. The key requirements are: the reduction of railway costs; full compensation for imposed public duties; and the avoidance of duplicative facilities.

Ministerial Policy Direction:

It is essential to ensure that the increased policy load likely to fall upon the Minister of Transport does not overwhelm the occupant of that office, and that the necessary support apparatus established to assist the Minister is made to be responsive - day-to-day and in the long term - to the needs and concerns of the provinces and other interested parties.

Information:

Access to information is essential to ensure efficiency in transportation markets. Failure to ensure that there is adequate and unbiased information tends to isolate competitors from normal market forces, and leads to a misallocation of resources. Not only carriers and users require this information; governments also need it if they are to properly manage publicly-owned services and facilities according to the best capabilities of each mode.

Education and Research:

Alberta recommends that the recent federal decision to discontinue funding of transportation research be reconsidered, and that a greater effort be made to develop new transport technology.

Review and Assessment:

Alberta believes that the new transport policy, and its implementation, will need to be reviewed on a systematic basis. A periodic forum, such as an annual meeting of federal and provincial ministers responsible for transportation policy, is one mechanism by which this could be done. Additional assessment could come from industry associations and the academic community.

Part II of this report (Chapters 5, 6, 7, 8 and 9) deals with specific rail, air, marine, trucking, and commodity pipeline issues.

Rail Freight Issues:

Alberta generally supports the proposals made in Freedom to Move to increase competition in the rail sector. These include the use of confidential contracts and collective railway pricing, and the establishment of joint-line rates. In addition to the retention of some regulatory presence in these matters, a further requirement is that the proposed "Regulatory Agency" publish essential, basic, railway cost data in a form usable by shippers.

Alberta also favours, in general, the proposed shipper-protection measures, in the areas of mediation, final-offer arbitration, appeals and common-carrier obligations.

Alberta supports the overall branch-line policy contained in the CTC's recent Report on the Inquiry into Railway Branch Lines, including the principle of informed branch-line user choice of alternative feeder services without physical or economic penalty.

The necessary alleviation of the freight rate burden on the west can best be accomplished by phasing in a maximum contribution level for rail rates where the railways cannot demonstrate the existence of effective competition to rail. However, the railways will have to be allowed to implement the types of efficiencies described earlier in this response if the sustainability of the rail system is to be assured.

While the minimum rate rule now in place to protect truckers will still have merit as a means of eliminating predatory pricing, it should be based not on long-run variable costs but on a definition of costs which reflects the existence of excess capacity in the railway system.

Alberta supports joint-track usage as an important means of reducing carrier costs and improving efficiencies in the system. This would avoid existing and future duplication of infrastructure and therefore prevent significant additions to the railways' cost base.

Air Transportation Issues:

Alberta believes that there could be real benefits in relaxing airline entry controls but recognizes that such action may not necessarily result in more competition because of the existing concentration in Canada's air industry. While this concentration need not unduly inhibit competition, the dominance of Air Canada will have to be minimized if long-term gains are to be achieved.

The proposed removal of regulations pertaining to the financial structure of airlines is consistent with the philosophy of reliance on the market place as the determinant of financial success. Alberta supports the proposed removal of the regulatory requirement for air carriers to file tariffs, because it will provide the industry with additional flexibility and help create a competitive operating environment. Alberta proposes, additionally, that such freedom from tariff filing extend to both fare increases and decreases, and that the determination of air fare levels be made solely by the market place in all situations except those involving service to remote points having no realistic transportation alternative.

Alberta supports the objective of not impeding market exit and recognizes the need to ensure a smooth transition in the event of exit.

Alberta favours: the retention of regulatory control over international tariffs; the principle of providing Canada with legislative authority to retaliate against "unfair and discriminatory" commercial practices in international civil aviation; and the formalization of ministerial authority to designate Canadian air carriers on international routes. In addition, the creation of a mechanism to accommodate community and provincial input to the negotiations of bilateral air treaties would be welcomed.

The concept of turning over certain airports to local authorities is appealing. Alberta advocates the creation of two pilot projects, one in western and one in eastern Canada, to test the validity of the local airport authority concept. It would be necessary during this test to maintain the existing level of Federal Government financial support, with a view to reducing or eliminating the federal role if the test proved successful.

Marine Transportation Issues:

Changes to Canada's transportation legislation must take into consideration the fact that a healthy liner service industry is needed to ensure the necessary capacity for Alberta's exports to reach foreign markets. Furthermore, compatibility between Canadian legislation and the U.S. Shipping Act of 1984 must exist if Canada is to continue to have adequate service at competitive rates. Where differences in policy exist, any new legislation must recognize the right of steamship lines to take independent action and allow shippers to form into groups for rate and service negotiation purposes.

Alberta wishes to see a ports policy which is responsive to regional needs. Port services must provide adequate capacity at a cost which allows exports to remain competitive in the world market place. Alberta appreciates the need for a national ports policy and administration of same; however, the Federal Government must also appreciate the need for greater regional autonomy in long-term planning and the maintenance of cash balances to finance future port and terminal expansions.

Alberta favours a transportation system in the north which recognizes the special development needs of northerners, combined with competitive services at cost-effective levels. The MacKenzie transportation corridor plays an important role in meeting these needs and federal policy must be sensitive to these considerations in both the short and long term.

Alberta supports freedom of entry in principle, and as such considers the waiver system to be a necessary requirement for ensuring that Canadian shippers and the offshore resource development industry are adequately served.

Extraprovincial Trucking Issues:

Alberta believes that provincial motor transport boards should not be bound by the precise wording of the Council of Transportation Ministers' February 1985 "Memorandum of Understanding". Regulatory reforms to the Motor Vehicle Transportation Act having to do with extraprovincial trucking should be dealt with in a general way.

Alberta agrees that the MVTA should be updated, but given that responsibility for administering the act has been delegated to the provinces, proposed changes should be reviewed by the Council of Transportation Ministers before they are placed before the House of Commons.

The discussion paper proposes to change Part III of the National Transportation Act from a test of "public convenience and necessity" to a "fit, willing and able" requirement. The proposed change should be coordinated with the provinces' anticipated switch in 1986 from "public convenience and necessity" to "fitness" only.

Carriers have expressed concern about the reliance that is to be placed upon increased competition, especially when two of their largest competitors, CN Rail and CN Route, are components of a large crown corporation. In Alberta's opinion, these are legitimate concerns. Similarly, Alberta supports the industry in its concern about predatory rail pricing and recommends that a minimum rate rule be maintained, but in a form which will not unduly restrict the ability of the railways to compete for business.

Commodity Pipeline Issues:

Alberta supports the proposal that licensing regulations be relaxed. This could facilitate the development of large-scale commodity pipelines for such products as coal-slurry mixtures.

Three final matters need to be raised in this response:

VIA Rail Canada:

Alberta understands that the important issue of rail passenger service is intentionally not dealt with in the Freedom to Move paper. Alberta trusts that the same opportunity already provided to certain provinces (including this one) to be involved in the drafting of legislative provisions dealing with commuter rail will also be provided where those provisions dealing with VIA are concerned.

Neilsen Task Force:

Alberta understands that the Federal Ministerial Task Force on Program Review (also known as the "Neilsen Task Force") intends to arrive at conclusions on many of the programs - and, by inference, policies and institutions - discussed in Freedom to Move. These conclusions will be of considerable interest to Alberta, and should be the subject of federal/provincial consultation before any implementation takes place.

Further Consultation on "Freedom to Move":

Alberta recommends that the several proposals not presented in detail in Freedom to Move be the subject of further federal/provincial consultation before positions are finalized.

1.0 INTRODUCTION

The economic growth and prosperity of Alberta absolutely depends upon its ability to sell goods and services in an increasingly-competitive environment. With only a small local market, Alberta firms must have adequate freight and passenger access to markets many hundreds and often thousands of miles distant. The Government of Alberta also recognizes that transportation is vital not only to this province but to all of Canada, and welcomes the opportunity to contribute to the process of developing a contemporary national transportation policy.

In his speech to the Canadian Industrial Traffic League on February 21, 1985, Mr. Mazankowski stated that: "What is needed now is a legislative framework that both catches up to current realities and permits a more responsive mechanism to adapt to the continuing changes in the future." Alberta agrees with this goal and the Federal Government's decision to rely primarily on the market place to achieve it. The economic restructuring now underway on a global basis means that the old approach to transportation in this country (e.g., regulations, investment strategies, and role of government) must be replaced <u>now</u> by a new approach designed to fit the lower-cost environment created by increasing world competition in export markets. To be competitive in a harsh environment is the order of the day in the 1980's.

Throughout their history, Albertans have pursued the development of a national transportation policy that would facilitate the economic growth and diversification of western Canada. The proposed changes to national transportation policy contained in the Federal Government's discussion paper, <u>Freedom to Move: A Framework for Transportation Reform</u>, represent a significant step toward removing a major constraint on western Canada's ability to achieve its potential. There is a new direction being forged in this country, whereby we Canadians will have to depend much more upon individual and corporate initiative to revitalize our economy. For this new direction to have

the greatest scope for success, there will have to be greater freedom given to the decision-making processes of the private sector. Inevitably, this will result in a re-balancing of the respective roles of the private sector and government. Government intervention in the economy will have to be restricted to those situations where it is absolutely required, and will somehow have to be cleansed of the costly, time-consuming and centralizing tendencies characteristic of recent decades.

In particular, Alberta supports the Minister's re-orientation of the policy proposals from the carriers to the users of transportation, and the greater emphasis placed on the role of the market place. But while Alberta is confident that the existing transportation system can handle increased competition in many sectors and modes, Alberta recognizes that the need to provide effective regulatory protection to transportation users where competition is weak or non-existent will not disappear. Alberta is encouraged that the federal proposals recognize this fact.

The purpose of this submission is to provide Alberta's response to the proposals contained in the Freedom to Move paper, and to suggest policy initiatives in some areas not covered in the paper. In developing its position, Alberta has taken into consideration the difficulty of having a national transportation policy which fits all modes and all regions. While the issues and concerns presented in this paper reflect the Alberta situation, the suggested actions are based on discussions with industry and other provincial governments, and are offered as being applicable on a national scale.

Three final matters need to be raised. First, Alberta understands that the important issue of rail passenger service is intentionally not dealt with in the Freedom to Move paper. Alberta is concerned that several of the proposals nonetheless would have serious implications for both VIA Rail Canada and commuter rail authorities. Alberta trusts that the opportunity already provided to certain

provinces, including this one, to be involved in the drafting of legislative provisions dealing with commuter rail will also be provided where those provisions dealing with VIA are concerned.

Second, Alberta understands that the Federal Ministerial Task Force on Program Review (the "Neilson Task Force") intends to arrive at conclusions on many of the programs - and, by inference, policies and institutions - discussed in Freedom to Move. These conclusions will be of considerable interest to Alberta and should be the subject of federal/provincial consultation before any implementation takes place.

Third, a number of the proposals made in Freedom to Move were not of sufficient detail to permit an unqualified statement of support or rejection. In these cases, Alberta's response was to flag the proposal concerned as one of considerable importance to the province, and therefore one requiring further work. Alberta recommends that these proposals be the subject of further consultation before positions are finalized.

This paper is divided into two parts. Part I, "Requirements and Policies", provides an overview of Alberta's transportation requirements, the impact of current and future economic restructuring on the province, and specific policy items of importance. Part II, "Specific Issues By Mode", deals with rail, air, marine, trucking and commodity pipeline issues.

PART I

REQUIREMENTS AND POLICIES

2.0 ALBERTA'S TRANSPORTATION REQUIREMENTS

2.1 Background

Over the years, Alberta has built upon its natural strengths in agriculture, energy, forestry, tourism and human resources to become one of the largest contributing provinces to Canada's economic wealth. From what was essentially an agriculturally-based economy in the 1940's, Alberta has not only expanded its resource industries but has made significant progress in developing local processing and manufacturing industries. In 1984, the value of Alberta's international exports exceeded $12 billion. To put the importance of exports to the economy in perspective, it should be noted that total international exports account for over 25 per cent of gross provincial product. When sales to other provinces are included, over 50 per cent of gross provincial product must be transported out of the province.

A closer examination of Alberta's exports (Exhibit 1) shows that bulk commodities dominate, in their raw, processed and semi-processed states. This emphasis on bulk commodities has a particular significance for Alberta that is derived from a common attribute of these shipments: a high weight-to-value ratio. Combined with an often-considerable distance to market, the result is to make transportation costs a major portion of the delivered price of such commodities. In spite of this inherent difficulty, Alberta producers and shippers have been very successful in selling to distant markets. But for Alberta to achieve its goal of a strong and growing economy, its industry be served by the most operationally-efficient and least-cost transportation system available.

2.2 Transportation of Raw Materials

The export of raw materials is the staple of the western Canadian economy, and includes both renewable and non-renewable resources. Because transport costs constitute a high proportion of the delivered

EXHIBIT 1

ALBERTA EXPORTS - TOP 20 COMMODITIES, 1984
(EXPRESSED IN THOUSANDS $CDN)

COMMODITY	VALUE	% OF TOTAL EXPORTS
NATURAL GAS	3,432,895	27.7
CRUDE PETROLEUM	3,019,486	24.4
WHEAT	1,159,049	9.4
SULPHUR, CRUDE OR REFINED	587,300	4.7
PROPANE GAS, LIQUIFIED	360,778	2.9
BUTANE GAS, LIQUIFIED	329,025	2.7
BARLEY	284,153	2.3
CANOLA	264,766	2.1
WOOD PULP, KRAFT PAPER, GRADE SOFT	259,293	2.1
COAL	246,502	2.0
PETROLEUM AND COAL PRODUCTS	243,828	2.0
ALCOHOLS AND THEIR DERIVATIVES	241,458	2.0
UREA	108,415	.9
AMMONIA ANHYDROUS	106,735	.9
ACYCLIC HYDROCARBONS AND DERIVATIVES	102,954	.8
LUMBER, SPRUCE, PINE, FIR	97,153	.8
GASOLINE	76,810	.6
CATTLE (OVER 700 LBS)	74,910	.6
FUEL OIL, NO. 1-3 STOVE FURNACE LIGHT	64,871	.5
EARTH DRILLING & RELATED MACHINERY & PARTS	50,664	.4
TOTAL - TOP 20 COMMODITIES	11,111,045	89.8
ALL OTHER COMMODITIES	1,261,968	10.2
TOTAL EXPORTS	12,373,013	100.0%

Source: Statistics Canada, 1984 Domestic Exports (commodity by country); Agriculture Exports, 1984.

costs (Exhibit 2), the primary requirement for these products is low-cost, efficient transport.

Three major issues cause persistent concern with regard to the movement of raw materials, particularly to Pacific Coast ports.

1. Absence of Competition: The west, unlike other parts of Canada, has no St. Lawrence Seaway and therefore no viable "intermodal competition" for movement of bulk commodities. Further, in Alberta, rail services are geographically-divided, with CP located primarily in southern Alberta and CN in the north. This effectively means that Alberta's bulk shippers have a minimum of "intramodal competition". With little or no competition and with the pricing freedoms granted by the National Transportation Act, the railways are free to charge what the traffic will bear. As Alberta predicted almost 20 years ago during the MacPherson Royal Commission process, the unconstrained pricing freedom given the railways has resulted in the captive shippers bearing a disproportionate and onerous share of railway overhead costs.

2. Capacity: There has been a shift in Canada's trading patterns to the Pacific Rim. The future need will be to assure sufficient capacity levels on railway lines that carry exports to west coast ports, without the onerous cost implications that over-investment in infrastructure can bring.

3. Staggers Rail Act of 1980: This issue arises out of differences in transportation regulations between Canada and its major trading partner, the United States. The Staggers Rail Act has placed some Canadian producers, of both bulk and non-bulk products, at a competitive disadvantage vis-a-vis their U.S. counterparts. Increased competition between the U.S. railroads, and their ability to offer confidential contracts, has provided considerable benefits to U.S. shippers. Canada cannot depend,

EXHIBIT 2

RAIL COSTS AS A PERCENTAGE OF SELECTED EXPORT COMMODITIES

	DESTINATION	RAIL COSTS AS % OF PRICE AT DESTINATION
COAL	Vancouver	30%
SULPHUR	Vancouver	18-20%
FOREST PRODUCTS	South-east U.S.	35%
PETROCHEMICALS	U.S.	15%*

Note: * includes net cost of shipper owned or leased rail cars.

in the long run, on a beneficial foreign exchange rate to increase sales to the U.S. market. Instead, Canadian shippers who utilize rail transportation must be able to compete on an equal basis with their American counterparts.

2.3 Transportation of Processed and Manufactured Goods

The diversification of Alberta's economy during the past decade has produced a variety of products which have a large proportion of their final value added in Alberta. Albertans have developed a wide range of processed goods, such as petrochemicals, foodstuffs and forest products. In addition to the upgrading of raw materials, a specialized manufacturing industry has emerged to meet the needs of oil and gas field operators and agricultural producers. An aggressive electronics sector has also sprung from the need for improved communications, geophysical assessment, and other manufacturing and handling processes.

Normally, upgraded products are thought to have one thing in common: a high dollar value per pound generating a requirement for high-quality, speedy transportation. However, in western Canada, many of these goods have a relatively-low value, even in their processed and semi-processed states (e.g., agricultural products and some petrochemicals), and consequently are as equally sensitive to rate levels as are raw materials. Therefore, like shippers of bulk commodities, these processing and manufacturing industries must be very concerned not only with an effective delivery system to market but also with transport costs.

2.4 Freight Distribution Services

Alberta's role as a key gateway to the north has led to the creation of a large redistribution industry within the province. Through its many warehouses and transfer facilities, products are assembled and redistributed throughout western Canada and the north. The success of

redistribution facilities depends on their ability to efficiently shift traffic between modes, thereby using whatever mode is most suitable for the shipment concerned. To meet the many and diverse demands placed upon these operations, a wide variety of multimodal transportation services is required.

2.5 Passenger Transport

Passenger transportation plays a number of major roles in economic development, among which are tourism, transport of professional personnel, and commuting. The highest profile needs to be given to the provision of rapid, efficient transport for management and professionals, both within the country and beyond. While links between Canadian cities are well developed, international services require more attention, particularly with the United States and the Pacific Rim countries.

The growth of the service industries within the economy has placed a new emphasis on passenger transport. For the professional sector (such as engineering, media and management services), there is seldom a product to transport. Information is the commodity being sold, and quite apart from the need for a good communications network, this means transporting the knowledgeable people to the clients, and vice-versa.

Another area in which passenger transport is important is tourism. The full gamut of high-quality passenger services is required to cover both the premium and mass market; to provide good access to, and within, Canada; and to make the journey part of the vacation experience itself.

Finally, efficient commuter services are needed to support the most important input factor to any economic enterprise: the human resource. Good commuter service calls for automobiles, buses and rail transit, depending on the circumstances. Failure to provide such

services can result in reduced productivity through tardiness, excessive employee turnover, and upward pressures on wages (if commuting costs to the user become too high).

As mentioned earlier, Alberta believes that the rail passenger issue is of considerable importance, both for tourism and for primary transportation to and within the province. Alberta looks forward to reviewing those federal legislative proposals affecting VIA Rail Canada.

2.6 Basic Levels of Service

Canadians have always recognized the importance of transportation in ensuring the continued political and economic unity of this country. Governments have historically taken a prominent role in ensuring that all Canadians have access to suitable transportation services. In the past, the emphasis was on the construction of the infrastructure necessary to link the country, particularly railroads, waterways, highways and airports. From time to time, and in response to specific needs, governments also have acted to ensure the continued provision of essential services.

Governments will have to continue to play a prominent role in providing an adequate level of infrastructure so that private industry can provide - through competition - a suitable level of service. The Canadian economy, and the transportation system that serves it, have not yet developed to the point where transportation can be placed on a totally self-sustaining basis. Some transportation users will continue to require government assistance where infrastructure is concerned to ensure the continuation of a suitable and adequate level of service. In addition, the development of new resource areas will often necessitate public assistance in the construction of transportation infrastructure.

3.0 IMPACT OF ECONOMIC RESTRUCTURING ON ALBERTA

3.1 Trends

Alberta's trade performance during the five-year period 1980 to 1984 was characterized by a gradual, but steady, increase in its share of world trade. However, sustaining this market share and expanding it has become increasingly difficult.

The world is in a period of economic restructuring, and the changes now underway will make it much more difficult for Albertans, indeed all Canadians, to remain competitive. Some of the more important changes which have, or will, impact on Alberta are: increasing protectionism by other countries; the strength of the Canadian dollar against currencies of countries other than the U.S.; excess supply world-wide of commodities exported by Alberta; and the emergence of newly-industrialized countries as serious exporting competitors. It is therefore important that Canada take positive steps now to strengthen its position on world markets. The results will benefit all of Canada, because expansion of the western economy creates demands for a vast range of goods and services produced throughout the country.

3.2 Implications

While the market place can, and should be, the primary mechanism for achieving a transportation system which will meet Canada's future economic needs, there are five major areas where governmental action will be required:

1. Achieving Rail Freight Rates Consistent With Economic Development Needs: Over the past 10 years, rail freight rates have risen dramatically. The magnitude of these increases has adversely affected the province's competitive position, and possibly damaged future marketing efforts. While steps proposed

in Freedom to Move, such as increased intramodal competition, confidential contracts, and joint-line rates, will go part of the way toward resolving this problem, additional steps will be required to remove the excessive overhead cost burden placed on western Canadian shippers.

2. Ensuring That Transportation Contributes to Regional Economic Development Objectives: Alberta's strategy regarding the international marketing of goods and services is that such efforts must be linked to the fundamental strengths of the province's economy. As the recent world-wide recession demonstrated, resource and commodity-based economies are vulnerable to adverse changes in external economic conditions and the associated reduction in international demand for their products.

Alberta recognizes that minimizing vulnerability to external forces is a long-term process. However, there are measures which can be taken now to achieve this objective. The diversification of the economic base and upgrading of resources and commodities prior to export will strengthen our ability to weather global downturns. Transportation policy must be supportive of regional economic development objectives if Alberta is to be successful in this regard.

At the Western Economic Opportunities Conference in 1973, the western provinces requested the inclusion of regional economic development objectives in national transportation policy. Bill C-33, introduced in 1977 to amend the National Transportation Act, and later renumbered as C-20, contained as one of its principles the promotion of national and regional social and economic development objectives. Even though the bill died on the order paper when the 1979 election was called, the issue remained one of general concern. In 1985, the Federal and provincial governments agreed to an "Intergovernmental

Position Paper on The Principles and Framework for Regional Economic Development". This paper contained the following two principles which were identified by the ministers responsible for economic and regional development as being important in the formulation of a new transportation policy for Canada:

> "Principle 5: All major national policies should be judged, in part, in terms of their regional impact, and, so far as possible, those policies should reinforce the goal of fair and balanced regional development.
>
> Principle 9: Transportation is recognized as a key to regional economic development."

In addition to endorsing the nine principles contained in this position paper, the premiers, at their August meeting in Halifax, adopted the following resolution with respect to the role of transportation as a regional economic development tool:

> "WHEREAS the importance of regional economic development has been agreed upon by all governments, we, the Provincial Premiers, call on the Government of Canada to incorporate in the proposed new National Transportation Act, in addition to an objective of commercial viability, the following:
>
> 1) Transportation is recognized as a key to regional economic development; and
>
> 2) Commercial viability of transportation links must be balanced with regional economic development objectives in order that the potential economic strengths of each region may be realized."

3. Recognizing Regional Differences: The geography of the west; the heavy dependence on resource industries; the absence of effective competition to, and within, the rail mode; the small size of local markets; the concentration of population into two complementary cities and the sparse distribution of its rural population - all of these factors create a unique transport environment in Alberta. Obviously, transport policy must be sufficiently comprehensive and flexible to accommodate the uniqueness of the west and the several other regions and sub-regions of Canada.

4. Harmonizing the Role of the Private and Public Sectors in the Transportation Market Place: Realistically, a transportation policy for the future cannot ignore its biggest participant: governments. Through their ownership of crown corporations, provision of infrastructure, and subsidization of imposed public duties, governments have a profound effect on the transportation market place.

   There are crown corporations in all modes of transport. The largest rail carrier, the largest airline, and one of the largest motor truck companies in Canada are, or are part of, crown corporations. If greater reliance is to be placed on competition, steps will be required to ensure that crown corporations do not have an unfair advantage as a result of their size or the position and role they occupy in the transport sector. This is especially important when it is recognized that normal profit criteria are not always applied to the decision-making process of a crown corporation.

5. Minimizing Impacts of Subsidies: Transportation subsidies, both direct (operating subsidies) and indirect (provision of infrastructure), were estimated to have a net cost to all levels of government of over $7 billion in 1979. These subsidies have come about in a number of ways and generally reflect the premium

society places on mobility of people and goods, and the unique importance of transportation to a country of Canada's vast size, geography and economic dispersion. Over three-quarters of this amount is due to the public provision of road, water and air transport facilities. The other principal contributor is operating subsidies for bus, rail, air and water services.

While there are a number of good purposes being served by transport subsidies, there are two significant problems that have become increasingly apparent in recent years:

- o Subsidies Represent a Fiscal Drag of Some Considerable Scale: The number of dollars involved has become sufficiently large that the ability to sustain the network over time has become a concern. It will be very important to ensure that public funds are spent wisely and efficiently.

- o Subsidies May Interfere With the Proper Workings of the Market Place: The most significant distortions arise out of the varying funding levels of, and cost recovery from, transportation infrastructure. In the case of road, water and air transportation, almost all infrastructure is provided by one or more levels of government. In contrast, railways are expected to cover the costs of both train operations and infrastructure.

Governments must carefully manage their involvement in the transportation sector, by balancing the need for public support against the effects on the market place. Furthermore, government funding decisions must take into consideration the distortions already present in the market place, so that decisions result in a highly-efficient, least-cost transportation system.

4.0 GENERAL POLICY ISSUES

4.1 Basic Objective of a New Act

This chapter addresses those general policy issues which are fundamental to a new national transportation act. In most cases, the issues apply regardless of the mode concerned.

Alberta believes that the basic objective of an effective national transportation policy should be to provide users with an efficient, adequate and suitable transportation system at the lowest possible cost, taking into consideration regional social and economic development objectives. The new transport regime should do three things: identify those aspects of the transport system that will have to change to meet the circumstances; identify any problems likely to be caused to the transportation users of various regions of the country; and put forward a process for handling the changes and their consequences. A suggested policy objective and supporting principles are presented as Exhibit 3. How the necessary re-balancing of private sector and government roles can best be accomplished is described in the following pages.

4.2 Increased Reliance on the Market Place

Alberta accepts the premise contained in Freedom to Move that much of the transportation market place is sufficiently mature to place greater reliance on market forces, and therefore ripe for the rebalancing of private and public functions described in the first chapter of this paper. However, Alberta points out that, where mature transportation systems do not exist (i.e. where there is a lack of intra- and intermodal competition and where population density is low), special protective measures will be required for disadvantaged shippers and smaller communities.

EXHIBIT 3

RECOMMENDED
NATIONAL TRANSPORTATION POLICY OBJECTIVE

THE OBJECTIVE OF NATIONAL TRANSPORTATION POLICY SHOULD BE TO PROVIDE THE USERS OF TRANSPORTATION WITH AN EFFICIENT, ADEQUATE AND SUITABLE TRANSPORTATION SYSTEM AT THE LOWEST POSSIBLE COST TAKING INTO CONSIDERATION REGIONAL SOCIAL AND ECONOMIC DEVELOPMENT OBJECTIVES. TO ACCOMPLISH THIS OBJECTIVE, THE LAWS AND REGULATIONS WHICH GOVERN TRANSPORTATION MUST:

(A) ENCOURAGE THE DEVELOPMENT OF AN EFFICIENT AND LEAST COST TRANSPORTATION SYSTEM. WHENEVER POSSIBLE, DIRECT COMPETITION, BOTH INTER AND INTRAMODAL, SHOULD BE THE PRIMARY MECHANISM FOR ACHIEVING THIS.

(B) ENSURE REASONABLE ACCESS TO AN ADEQUATE AND SUITABLE TRANSPORTATION SYSTEM. THERE SHOULD BE ADEQUATE CAPACITY SUPPLIED BY THE PRIVATE AND/OR PUBLIC SECTOR, WHICHEVER IS APPROPRIATE. ALSO, USERS SHOULD HAVE ACCESS TO A MODE OF TRANSPORTATION WHICH IS SUITABLE TO THEIR NEEDS.

(C) SUPPORT THE PROVISION BY GOVERNMENT OF A BASIC LEVEL OF TRANSPORTATION SERVICE WHERE PRACTICAL, AND WHERE NO COMMERCIAL ENTERPRISE WILL UNDERTAKE TO DO SO.

(D) PROVIDE EQUITABLE TREATMENT FOR TRANSPORTATION USERS. A CARRIER OR GOVERNMENT BODY SHOULD BE RESTRICTED IN ITS ABILITY TO CHARGE RATES OR USER CHARGES WHICH CONSTITUTE AN EXCESSIVE BURDEN ON A REGION OR A GROUP OF USERS.

(E) ENSURE THAT THE TRANSPORTATION SYSTEM CAN SUSTAIN ITSELF. CARRIERS AND GOVERNMENTS MUST MANAGE TO ACQUIRE SUFFICIENT CASH FLOW TO MAINTAIN THE CURRENT LEVEL OF INVESTMENT IN TRANSPORTATION AND TO FINANCE NEW CAPITAL EXPANSIONS.

(F) RECOGNIZE THAT TRANSPORTATION PLAYS AN IMPORTANT ROLE IN ACHIEVING REGIONAL ECONOMIC DEVELOPMENT. COMMERCIAL VIABILITY OF TRANSPORTATION LINKS MUST BE BALANCED WITH REGIONAL ECONOMIC DEVELOPMENT OBJECTIVES IN ORDER THAT THE POTENTIAL ECONOMIC STRENGTHS OF EACH REGION MAY BE REALIZED.

(G) TAKE INTO CONSIDERATION REGIONAL DIFFERENCES. FOR A TRANSPORTATION POLICY TO BE SUCCESSFUL IN A COUNTRY SUCH AS CANADA, IT MUST TAKE INTO CONSIDERATION THE STRUCTURE AND MATURITY OF THE TRANSPORTATION SYSTEM SERVING ITS VARIOUS REGIONS.

(H) RECOGNIZE THAT GOVERNMENT HAS A CRUCIAL ROLE IN TRANSPORTATION AND THAT IT IS NECESSARY TO CONTINUE THIS ROLE WITH MINIMUM DISTORTIONS IN THE MARKET SIGNALS SENT OUT TO THE PRIVATE SECTOR PARTICIPANTS. A BALANCE MUST BE ACHIEVED WHEREBY PRIVATE AND CROWN CORPORATIONS CAN COMPETE AND WHEREBY COMPETITIVE DISTORTIONS CAUSED BY PRIVATE AND PUBLIC OWNERSHIP OF INFRASTRUCTURE ARE MINIMIZED.

(I) PROVIDE FOR EXPEDIENT HANDLING OF ISSUES AND FULL DISCLOSURE OF INFORMATION IN AN OPEN AND ACCESSIBLE REGULATORY PROCESS.

(J) ENSURE SAFE AND RELIABLE SERVICE.

Put simply, not all transportation markets will be able to benefit from deregulation. Where there are few carriers and entry is expensive, or where traffic is relatively light, reliance on market forces may not yield economically or socially-desirable results. Examples of these situations are very common in western Canada and have been described above. Over 60 per cent of Alberta's traffic is captive to rail, and a major portion of this to one major railway or the other. In the air mode, existing levels of service to many remote communities have been established based on the current regulatory system of awarding routes.

Having said this, Alberta wishes to stress that only a minimum of absolutely-necessary regulation should be applied, and applied far more reasonably and effectively than in the past, and at a lower cost to the user.

4.3 Multimodalism, Mergers and Acquisitions

Alberta recognizes the importance of multimodal transportation to its economic development objectives. An indication of this is Alberta Intermodal Services Ltd., which will go into operation early in 1986 and offer container users the full benefits available from efficient, high-volume shipments.

Alberta believes that the development of multimodal transportation should be encouraged primarily through competition, not necessarily by facilitating mergers and acquisitions. The Federal Government's discussion paper suggests that the Governor-in-Council be empowered to disallow domestic mergers and acquisitions of major federally-regulated transportation undertakings valued at $20 million or more. While this proposal is an improvement over the originally-proposed Bill S-31, Alberta believes that a separate limit should be set for each mode.

In the past, Alberta, like many other provinces, has found it necessary to make investments for economic development reasons, or to guarantee transportation services to remote communities. Such activities, even if they involve acquisition of a firm, should not be considered detrimental to the national interest, and should not be subject, in normal circumstances, to federal approval.

Provincial motor transport boards now approve mergers, acquisitions and transfers of extraprovincial operating authorities, with carriers being advised to notify the Canadian Transport Commission, under the provisions of Section 27 of the National Transportation Act. The proposals contained in Freedom to Move should not preclude the boards from continuing their existing jurisdiction over these activities.

There should be a separate approval process which examines multimodal mergers and acquisitions, with the primary criterion for disallowance being a restriction of competition. To minimize uncertainty, it is important that such criteria, and all other rules of the game, be made known.

4.4 Modal and Regional Differences

Alberta agrees that policies and regulatory criteria specific to each mode should be developed. In addition, within each of the modes, there should be sufficient flexibility to accommodate the needs of users in the various regions which comprise Canada. As described above, Alberta's particular regional characteristics have resulted in a number of impediments to economic growth and diversification. The removal or mitigation of these impediments is what Alberta has meant, over the years, when it has called for recognition of the role of transportation in economic development.

4.5 Discriminatory Transport Policy

Alberta believes that transportation policy must protect regions and groups of users from discrimination. Where competition is pervasive, the market place can be relied upon to ensure that rates and toll charges are reasonable. One notable exception is rail service in western Canada, where there is very little opportunity for intramodal, let alone intermodal, competition. The result is rail rates which, in other parts of Canada, would be non-competitive. This has been a matter of concern in the west since the completion of the western railway extensions.

The 1967 National Transportation Act created, in its own way, a situation in which one region was discriminated against. By granting the railways the freedom to set rates, while at the same time offering no effective protection to captive shippers, the burden of railway fixed costs was shifted to captive shippers, the majority of whom were located in the west. This situation endures, and places western Canada at a compounded disadvantage in trying to achieve its economic development aspirations.

To be more specific, rail and pipeline (another mode upon which Alberta is significantly dependent) are the only modes which must recover the full cost of the infrastructure provided. This creates a very large overhead, or fixed-cost, component which must be collected from rail users. The absence of effective intermodal competition creates a second problem, in that the railways are recovering a disproportionately-large share of their overhead cost burden from traffic to and from Alberta. A study completed in July of 1985 on Alberta's rail rates and costs (Alberta Economic Development, Burden Study: 1982 Alberta Rail Traffic) shows that, even with losses on grain shipments, the railways recovered from Alberta traffic, a contribution to overhead costs in an amount equal to 34% of variable costs directly assignable to that traffic. By comparison throughout the total Canadian system, the railways only received a contribution equal to 6% of their total variable costs.

The Federal Government's proposals to increase protection to captive rail shippers through mediation, rate arbitration, streamlined Section 23 appeal procedures, and joint-line rates are very important but only partial solutions to the problem. These appeal procedures focus on issues arising from incremental rate changes and do not address the underlying discrimination built into the rate structure.

Until very recently, the issue of discrimination was considered as primarily a railway issue. Now, with the imposition of a higher tax on airline tickets (now nine per cent), the problem has materialized in the air mode as well. This tax was created to support the cost of providing the entire air transportation system, including airport facilities. By applying the tax to the total ticket price, the long-haul traveller is being unfairly treated. Given that travel distances for western Canadians are considerably longer, this region of the country is particularly at a disadvantage as a result.

Transportation is too important to all regions of Canada to permit uncontrolled discrimination between the regions as a means of ensuring overall system sustainability. While discrimination probably cannot be totally eliminated, Alberta will make recommendations later in this submission as to how the two specific problems identified above can be resolved.

4.6 Compensation for Imposed Public Duties

Alberta agrees that "imposed public duties" should be clearly identified, and full compensation paid to companies required to provide the services concerned. In some instances, a bid or tender system, as opposed to cost-plus formulae, might be the appropriate tool.

The concept of providing specific compensation for uneconomic services which can be considered to be imposed public duties is sound. Under the current policy, specific services are compensated for in many

different ways. Some subsidies, mostly in the rail mode, are paid under programs prescribed by legislation (branch lines, maritime freight rates, and western grain). Other subsidies are part of cost-sharing agreements with the provinces (coastal ferry service and road construction), and there are some subsidies paid out to alleviate specific problems (regional air carrier subsidies). One other very important form of subsidization also has occurred, with governmental approval: the use of cross-subsidization, most obviously in the air mode, where routes have been allocated by regulatory action.

All of these programs have been put in place to meet the needs of groups of transportation users. For this reason, Alberta expects the services supported by these federal subsidies - altered as required by changing circumstances - to continue in operation, funded by the Federal Government. From Alberta's perspective, any changes to the subsidy programs must: maintain a level of service consistent with user needs and ability to pay; be paid out in such a way that both cost reduction and service improvement are facilitated; and be sufficiently flexible to meet future needs.

Alberta has a number of concerns which need to be addressed if there is to be an effective "safety net" for transportation users adversely affected by change:

1. Subsidy Programs for Specific Services: The means of offering financial support to a particular service should be specifically designed to fit the situation.

2. Definition of Subsidy Programs: Under the existing regulatory system, many services have been supported by users through cross-subsidization. The proposed deregulation would result in the removal of this support, and thus it is important that the conditions under which the Federal Government will support, for example, an air service or a branch line, and the proposed level of that support, be clearly stated in the new legislation.

3. Cost Transfers: Alberta is concerned that recent initiatives to reduce spending could affect the level of service the Federal Government will support, primarily where rural and remote community services and the airport system are concerned. It is important that cost responsibility remain with the Federal Government, and that adequate funding be available to ensure the continuance of a basic level of service.

4. Payment Mechanisms: The manner in which a subsidy is paid out must also be given careful consideration. The passage of the Western Grain Transportation Act in 1983 clearly demonstrates the barriers to economic growth and diversification which can be built into transportation policy and government regulations. For western agriculture to expand and diversify, it is essential that freight rates paid by farmers reflect their ability to pay, that the grain handling and transportation system become more efficient, and that the payment of the transport subsidy be made in such a way as to minimize economic distortions. Another example of how payment mechanisms can have undersirable results also relates to the WGTA. The act defines the ports through which grain and grain products can be exported at the subsidized rate, and this has created a serious problem for shippers who use containers. With access denied to the Port of Seattle, Alberta shippers of grain and grain-related products, through Vancouver in particular, often are faced with a shortage of appropriately-sized containers. As a result, they must pay the cost of positioning empty containers.

5. Bid or Tender Approach: Alberta agrees that cost-plus subsidies should be avoided, in favour of the normally-superior bid or tender approach. However, because it is often difficult to solicit bids or tenders, more attention needs to be given to the mechanics of this approach.

6. Countervail: Because world markets are becoming more and more affected by protectionism, the threat of countervailing action must be taken into consideration. The export definition in the WGTA illustrates the problem. Some grain and grain products, defined as "exports" in the act, are now threatened with countervailing duties and quotas.

7. Provincial and Municipal Input: Deregulation removes both the process and perhaps the forum through which the needs of the user can be voiced. In order to implement a bid or tender approach, the service requirements will have to be known and specified. It is Alberta's suggestion that these specifications be developed in consultation with the province and local municipalities concerned.

4.7 Role of Crown Corporations

In addition to its subsidy programs, the Federal Government is also the major participant in the transportation system through its ownership of crown corporations and its role in providing much of Canada's air and marine infrastructure. Although the federal discussion paper acknowledges these roles, there is perhaps not enough emphasis placed on the importance of interface between the private and public sectors. Proper management of this interface will become increasingly important when greater competition is encouraged in the transport system.

Alberta believes that the position and role of each crown corporation should be reviewed and, in some cases, altered in accordance with changing economic and social circumstances. Crown corporations should: have as their objective the maximization of profits; be compensated for performing uneconomic services required in the public interest; be provided with performance targets based upon their private sector competitors; divest themselves of most of their non-transportation assets; and be prohibited from acquiring - except in special circumstances - companies offering competitive service.

For the most part, the above recommendations are similar to the suggestions made by the federal Privy Council Office in 1977 in a report entitled, Crown Corporations - Direction, Control, and Accountability.

One solution to the crown corporation problem often put forward is privatization, either totally or partially, through the creation of a minority shareholder position. However, Alberta does not believe that privatization of CN Rail or Air Canada is likely to occur at this time. CN Rail's size, low profit levels and high debt ratio make it an unlikely candidate for early privatization. Air Canada might find a buyer, but its sale would probably only aggravate the problems caused by its domination of the Canadian domestic airline market (even breaking up the company and selling the pieces would only be a short-term solution, because the nature of the Canadian market is such that the corporate concentration would soon reappear), and selling minority share positions would not have any significant effect on company management if the shares were widely held.

The federal discussion paper (p. 23) states that: "Particular emphasis will be devoted to ensuring that the transportation crown corporations operate as good corporate citizens". In Alberta's view, this is a necessary step but will not be sufficient to ensure that the competitive environment which results from deregulation will be fair to all participants. Application of the guidelines described above would allow crown corporations to fulfil their mandate, without impairing their ability to compete effectively with their private sector counterparts. Since the objective of the new policy is to put greater reliance on the market place, the rules of that market place, where pricing, investment, success and failure are concerned, must be the norm for crown corporations as well.

4.8 Federal Investment Programs

When making transport investment decisions, or managing investment programs, the Federal Government should take into consideration regional economic development objectives and the potential impact on

the transport market place. This issue is not addressed in Freedom to Move but is of great importance to the west. Alberta also suggests that the provinces concerned should be consulted fully prior to the elimination or reduction of any existing program; that differences in cost recovery should be considered when investment (or disinvestment) decisions are made; and that a publicly-available data base should be compiled to facilitate intelligent decisions on investment and cost recovery.

The proposals for the reduction of federal program operating costs, and for the careful evaluation of new capital expenditures, are of concern to Alberta, particularly given that cost recovery from government-provided infrastructure varies considerably between the modes (Exhibit 4). Using the latest numbers available to Alberta, cost recovery has ranged, in recent years, from 22 per cent for marine to 39 per cent for road. These variations, and any future alterations to them, will affect competition in transportation.

Alberta supports, in general, the recent efforts of the Federal Government to reduce its deficit. But where this involves elimination of services, reduction in the level of support for specific services, or the raising of user charges, Alberta is concerned about the impact on regional economic development. The provinces should be consulted to determine the impact of proposed changes prior to their implementation, especially where a financial void might be created which would have to be filled.

There is a need for balance where user charges are concerned. Canadians support assistance to transportation for a wide variety of social and economic reasons. Governments have found it appropriate to respond to this wish, but at the same time must give due regard to the overall fiscal demands of the transport sector, and to the impact on competition and choice when user charges are adjusted. The variations in cost recovery by mode must also be taken into consideration when investment decisions are made, because failure to do so will result in a misallocation of resources between modes.

EXHIBIT 4

ANNUAL TRANSPORT INFRASTRUCTURE COSTS AND REVENUES (ALL LEVELS OF GOVERNMENT)

(Millions of 1979 constant dollars)

	1969	1973	1975	1979
AIR				
Annual Costs	503	715	846	869
Annual Revenues	115	155	241	314
Cost Recovery	23%	22%	28%	36%
MARINE				
Annual Costs	1007	1135	1170	1164
Annual Revenues	238	230	242	251
Cost Recovery	24%	20%	21%	22%
ROAD				
Annual Costs	5438	6377	7024	7171
Annual Revenues	3631	3849	2993	2817
Cost Recovery	67%	60%	43%	39%

Source: Transport Canada, Transport Costs & Revenues in Canada, 1969 - 1979, 1982, Ottawa.

4.9 Sustainability of the Transport System

For Canada's extensive transport system to continue supplying a high level of service and to meet future needs, there must be sufficient cash flow to cover maintenance, capital replacement and capital expansion. The early stages of erosion of a transport system are hard to detect; in the case of government-funded infrastructure, the first step in a tight-cost situation is to gradually defer maintenance, while in the case of privately-funded infrastructure (such as rail), an effort is usually made to direct available funds towards specific areas which have a higher rate of return, while allowing other areas (e.g. branch lines) to deteriorate.

Alberta's primary concern is with the rail system. This mode, upon which Alberta is so dependent, must supply its own infrastructure. As described earlier, the railways have been able to sustain themselves in the past by shifting their fixed-cost burden to the captive shippers. As the Burden Study demonstrates, the western rail traffic has been the mainstay of railway sustainability.

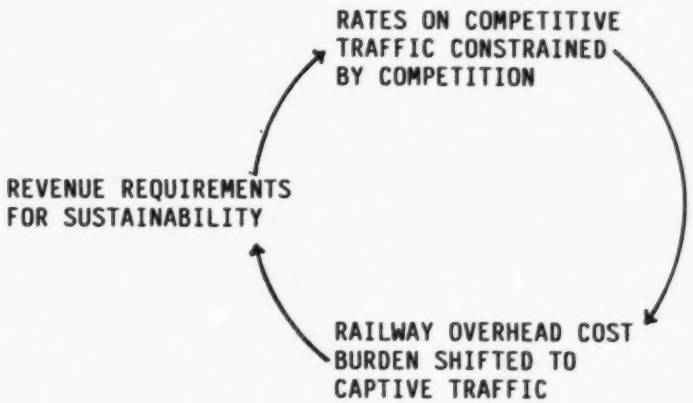
The manner in which the railways sustain themselves is depicted in Exhibit 5. Increased competition in world markets can upset this balance, as in the following sequence: rates on competitive traffic are constrained by competition; excess supply depresses prices in world markets; rates on captive traffic thus are constrained; and, finally, revenue earned diminishes and falls below that required to sustain the transport system.

The removal of the excessive cost burden from western transportation users is imperative, but must be accomplished without impairing the viability of the railways. The key requirements are: the reduction of railway costs; full compensation for imposed public duties; and the avoidance of duplicative facilities. This issue is discussed in more detail in Section 5.5 ahead.

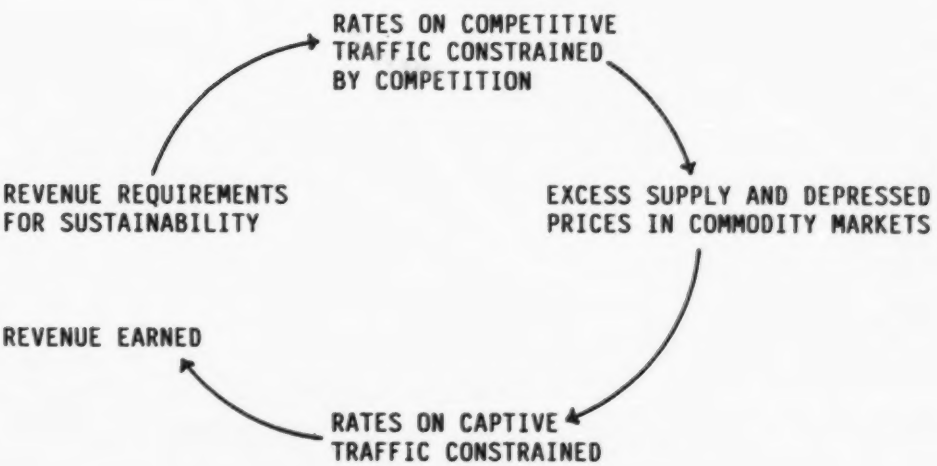
EXHIBIT 5

RAILWAY SUSTAINABILITY

A. Existing Situation


RATES ON COMPETITIVE TRAFFIC CONSTRAINED BY COMPETITION
REVENUE REQUIREMENTS FOR SUSTAINABILITY
RAILWAY OVERHEAD COST BURDEN SHIFTED TO CAPTIVE TRAFFIC

B. Impact of Changes in World Commodity Prices


RATES ON COMPETITIVE TRAFFIC CONSTRAINED BY COMPETITION
EXCESS SUPPLY AND DEPRESSED PRICES IN COMMODITY MARKETS
RATES ON CAPTIVE TRAFFIC CONSTRAINED
REVENUE EARNED
REVENUE REQUIREMENTS FOR SUSTAINABILITY

4.10 Decentralization of Federal Programs

In recent years, there has been a move toward decentralized management of federal transportation programs. The establishment of the Western Division of the CTC, the creation of the local port corporations, and the proposed establishment of local airport authorities, are all viewed as positive steps toward making the administration of federal programs and regulations more responsive to local and regional needs.

Alberta recommends that there be further administrative decentralization. This should be accompanied by the opportunity for meaningful regional input (including participation in the appointment of regulatory commissioners); delegation of autonomy sufficient to enable the management of facilities according to local needs (regional advisory boards, as with ports, could be extended to other areas); and provision of sufficient federal monies to enable each regional facility to be financially viable.

4.11 Ministerial Policy Direction

Generally, Alberta agrees with the direction taken in Freedom to Move towards greater responsibility for the Minister of Transport. As the elected representative, the Minister should have full responsibility for making policy, and then be held responsible for the results of that policy. Alberta's main concern is that the increased policy load does not overwhelm the occupant of that office, and that the necessary support apparatus established to assist the Minister can be made responsive, both day-to-day and in the long term, to the needs and concerns of the provinces and other interested parties.

4.12 Information

User access to information is essential to ensure efficiency in transportation markets. Information plays two very important roles.

The first is to allow users to seek the least-cost option available to them or to effectively negotiate an agreement with a carrier. The second is to encourage entry into profitable markets. Failure to ensure that there is adequate and unbiased information tends to insulate competitors from normal market forces and to cause a misallocation of resources.

Two areas where information access may be a problem concern the air and rail modes. Control of the major national airline reservation system by Air Canada would present a problem for smaller airlines, and the provision for confidential contracts in the rail mode would create the need for alternate sources of information outside the control of the railways.

Another key requirement is for governments to have well-developed information on usage, costs and subsidies of the various modes. No one could run a business efffectively without a detailed and accurate balance sheet, an income statement or a cash-flow analysis, and the same applies to governments in their management of publicly-financed services and facilities.

4.13 Education and Research

Transportation, representing as it does a very significant component of the Canadian economy, requires good managers and a continuous inflow of new ideas and technology. Alberta recommends that the recent federal decision to discontinue funding of transportation research be reconsidered, and that a more active program to support the development of new technology be implemented.

4.14 Review and Assessment

One of the more serious short-comings in the administration of existing transportation legislation has been the absence of a formal

review and assessment process. There is a need not just for a four-year review, as suggested in the discussion paper, but for continuous, on-going assessment. Such an assessment requires both a forum and a data base capable of identifying important trends and changes. One example of the type of information which will be required is a rail rate burden study, such as the one conducted by Alberta but expanded to include all provinces and to identify the changes caused by confidential contracts. Another critical need will be to observe changes in air carrier service levels to various types of communities.

A periodic forum, such as an annual meeting of federal and provincial ministers responsible for transportation policy, would be one mechanism by which the legislation and subsequent changes could be reviewed. Additional, less-formal assessment could come from industry associations and the academic community.

PART II

SPECIFIC ISSUES BY MODE

5.0 RAIL FREIGHT ISSUES

5.1 Introduction

The proposed changes to railway policy and regulations will have a considerable impact on the economic growth and diversification of Alberta, and indeed all of western Canada. The manner in which these changes are made will have a far reaching impact on Alberta's, and Canada's, ability to remain competitive in U.S. and overseas markets.

Alberta has long argued for a regulatory framework for railway transportation which would facilitate economic growth and diversification in the west. The Federal Government's discussion paper addresses many of the rail freight rate concerns expressed by the west over the years.

Proposed changes to the existing policy and regulatory framework governing railway transportation must recognize certain realities of railway transportation in western Canada:

1. Locational Disadvantage: Distances to markets for Alberta products are generally greater than for its competitors (Exhibit 6). In addition, for most of the traffic moving into or out of Alberta, rail transportation is the only viable option; in fact, over 60 per cent of Alberta's shippers have no realistic option as to the mode of transport they utilize.

2. Limited Opportunity for Intramodal Competition: With CN Rail predominantly serving the northern part of the province and CP Rail the southern part, opportunities for intramodal competition are limited. As well, most of Alberta's rail traffic originates at locations distant from the 10 rail interchange points in the province.

EXHIBIT 6

DISTANCE TO EXPORT POINT FOR MAJOR COMMODITIES

Commodity	Markets	Suppliers Major Suppliers	Transportation Distance for Supplier
COAL	Japan South Korea	Alberta	600-700 miles to tidewater
		Australia	10-250 miles to tidewater
		South Africa	Less than 400 miles to tidewater
SULPHUR	Morocco Brazil Australia	Alberta	600-750 miles to tidewater
		Saudi Arabia	Less than 60 miles to tidewater
GRAIN	U.S.S.R. China	Alberta	650-900 miles to tidewater
		U.S. Mid-West	40-400 miles to tidewater
		Australia	Less than 400 miles to tidewater
POLYETHYLENE	California Illinois	Alberta	1500-1650 miles to California and Illinois by rail
		Texas,Louisiana	1000-1300 miles to California and Illinois by rail
METHANOL	Texas,Louisiana California	Alberta	700 miles to tidewater 2000 miles to Louisiana by rail
		U.S.: Texas, Louisiana Florida, California	suppliers near customers
LUMBER	U.S.: E. Seaboard Mid-West	Alberta	1300-2600 miles by rail [1]
		British Columbia	2000-3000 miles by rail [2]

NOTES:
1 Water transportation uncompetitive.
2 Water transportation used from points on or near coast to several Eastern seaboard states.

3. Alberta's Competitive Position: Many Alberta rail shippers have experienced, over the past 15 years, rate increases greater than the increases in railway costs (Exhibit 7). In addition, those shippers considered to be captive to rail generally have experienced rate increases in excess of those applied to major movements of competitive traffic into or out of Alberta. Exhibit 7 also demonstrates this, although it is not a rigorous analysis of the differences between the rate increases on captive shippers and the cost index. The differences, however, are sufficiently large to arouse the concern that the productivity gains achieved by the railways over the past 12 years have not been shared with western shippers.

4. Staggers Rail Act of 1980: An increasing proportion of rail traffic to the U.S. originates in Alberta (Exhibit 8). For Alberta shippers to maintain their competitive position, it is important that they be able to compete on as equal a basis as possible. The Staggers Rail Act, through its provisions to increase intramodal competition and to allow confidential contracts, gave American shippers a considerable advantage over their Canadian competitors.

5. Freight Rate Burden: Traffic into and out of Alberta, and most likely all of western Canada, is making a disproportionately-large contribution to railway constant costs (Exhibit 9). Also of note is the fact that the average contribution ratio earned on traffic into and out of Alberta greatly exceeds that earned on average by the entire rail system. If Alberta, and the rest of western Canada, is making an excessive contribution, then it must follow that other parts of the rail system are not able to support system constant costs.

6. Railway Sustainability: Just as the western provinces depend on the railways, the railways depend on western Canada. The

EXHIBIT 7

SELECTED COMMODITIES MOVING INTO AND OUT OF ALBERTA
1973 - 1985

A. RAIL RATE CHANGES

COMMODITY	ORIGIN	DESTINATION	PERCENTAGE CHANGE OVER 12 YEARS
CAPTIVE:			
OUTBOUND			
COAL	LUSCAR, ALTA.	NORTH VANCOUVER, B.C.	474
LPG	HOMEGLEN, ALTA.	WESTRIDGE, B.C.	684
LUMBER	WHITECOURT, ALTA.	TORONTO, ONT.	324
SULPHUR	EAST CROSSFIELD, ALTA.	NORTH VANCOUVER, B.C.	496
COMPETITIVE:			
OUTBOUND			
PIGGYBACK-PLAN II	CALGARY, ALTA.	WINNIPEG, MAN.	355
INBOUND			
AUTOMOBILES	WINDSOR, ONT.	RED DEER, ALTA.	248
CANNED GOODS	TORONTO, ONT.	EDMONTON, ALTA.	235
PACKAGED FOODSTUFFS	MONTREAL, QUE.	CALGARY, ALTA.	254
GENERAL MERCHANDISE	WINNIPEG, MAN.	EDMONTON, ALTA.	373
IRON & STEEL ARTICLES	HAMILTON, ONT.	EDMONTON, ALTA.	222
PAPER & PAPER ARTICLES	VANCOUVER, B.C.	EDMONTON, ALTA.	260

B. RAIL COST INDEXES

PRICE INDEX: 1	374
COST INDEX: 2	211

NOTES:

1 The Price Index was constructed using the approved CTC Price Indices for the year concerned. Each input index was weighted by the portion of that input used in moving WGTA grain.

2 The Cost Index is the change in Total Railway Expenses per Gross Ton Mile. This includes depreciation, taxes and fixed charges. Passenger costs incurred by the railways were included but VIA charges to the railways after 1979 were removed together with the appropriate Gross Ton Miles.

EXHIBIT 8

TRAFFIC TO U.S.

(TOTAL TONS EXC. GRAIN & INTER-MODAL)

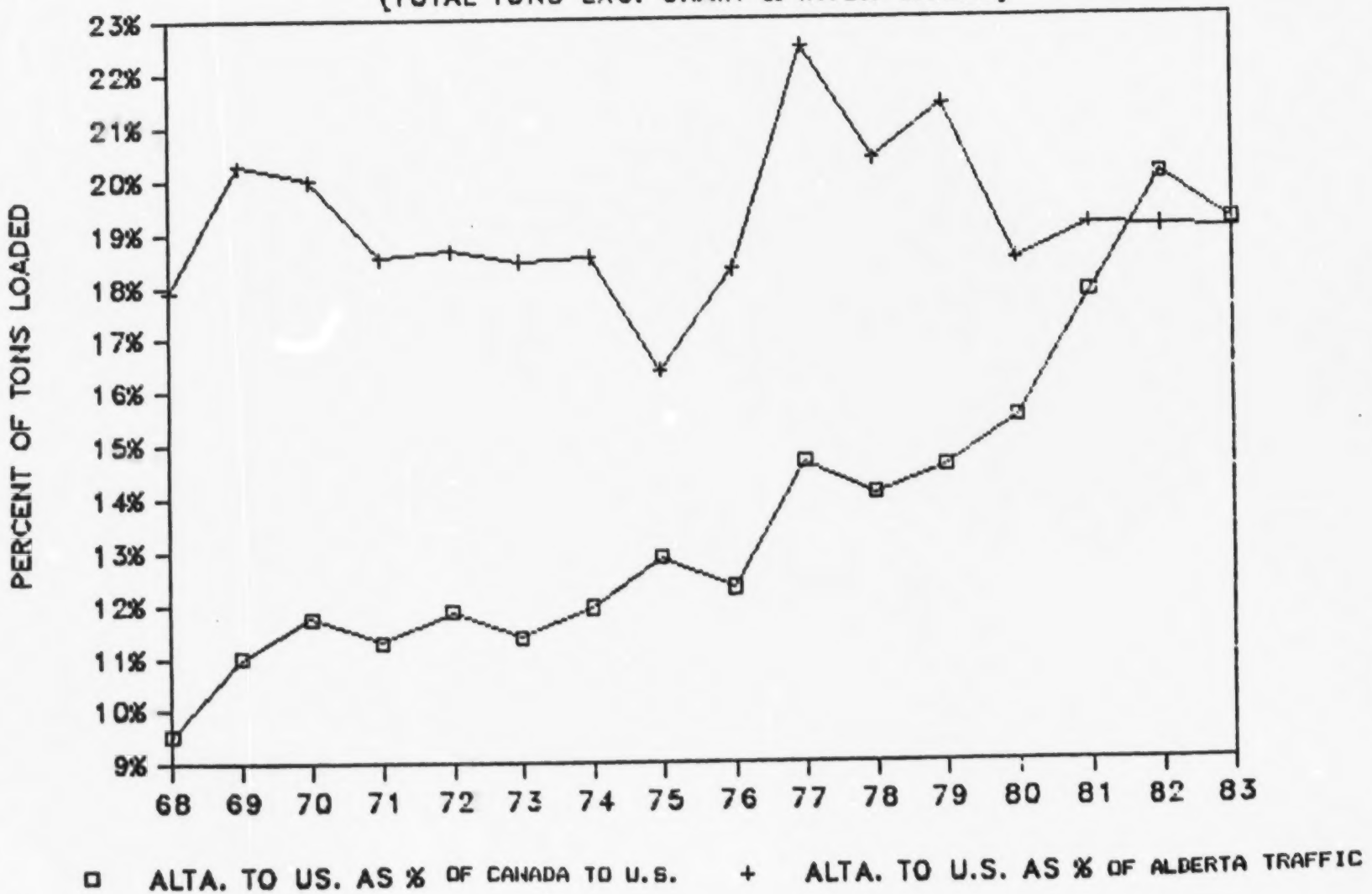


EXHIBIT 9

ALBERTA BURDEN STUDY RESULTS
1979 and 1982

	*Including Statutory Grain		*Including Compensatory Grain		*Excluding Grain	
	(1) Contribution Ratio	(2) Contribution ($Million)	(1) Contribution Ratio	(2) Contribution ($Million)	(1) Contribution Ratio	(2) Contribution ($Million)
1979						
Alberta:						
Outbound	1.22	$ 78.9	1.44	$155.2	1.56	$137.2
Inbound	1.81	155.1	1.81	155.1	1.81	155.1
Total:	1.43	234.0	1.57	310.3	1.67	292.3
Canadian Total:	1.09	289.0	1.17	550.5	1.17	480.5
1982						
Alberta:						
Outbound	1.16	$103.9	1.42	$280.2	1.58	$236.1
Inbound	1.92	191.9	1.92	191.9	1.92	191.9
Total:	1.34	295.8	1.54	472.1	1.70	428.0
Canadian Total:	1.06	269.2	1.16	684.8	1.16	560.7

NOTES:

* Revenues and costs were calculated for three scenarios:
  - Statutory Grain: Calculations were based on the actual occurances in the rail system where grain was transported at non-compensatory rates.
  - Including Compensatory Grain: Calculations assume grain revenues are determined in a post WGTA environment where railways receive revenues which cover variable costs as defined by Cost Order R-6313 and make a 20% contribution to constant costs.
  - Excluding Grain: Statutory grain revenue and costs are excluded.

(1) Contribution Ratio = Revenue divided by long-run variable costs.

(2) Contribution = Revenue minus long-run variable costs.

results of the Burden Study and the traffic shift to western Canada since 1967 (Exhibit 10) clearly show that sustainability of the rail system depends on revenues earned in the west.

7. Branch Line Services: Branch lines are an important part of the basic infrastructure necessary to serve Alberta's rural communities. Decisions regarding the future of specific rail lines and/or the provision of alternative services cannot, therefore, be solely based on the economics of the line in question.

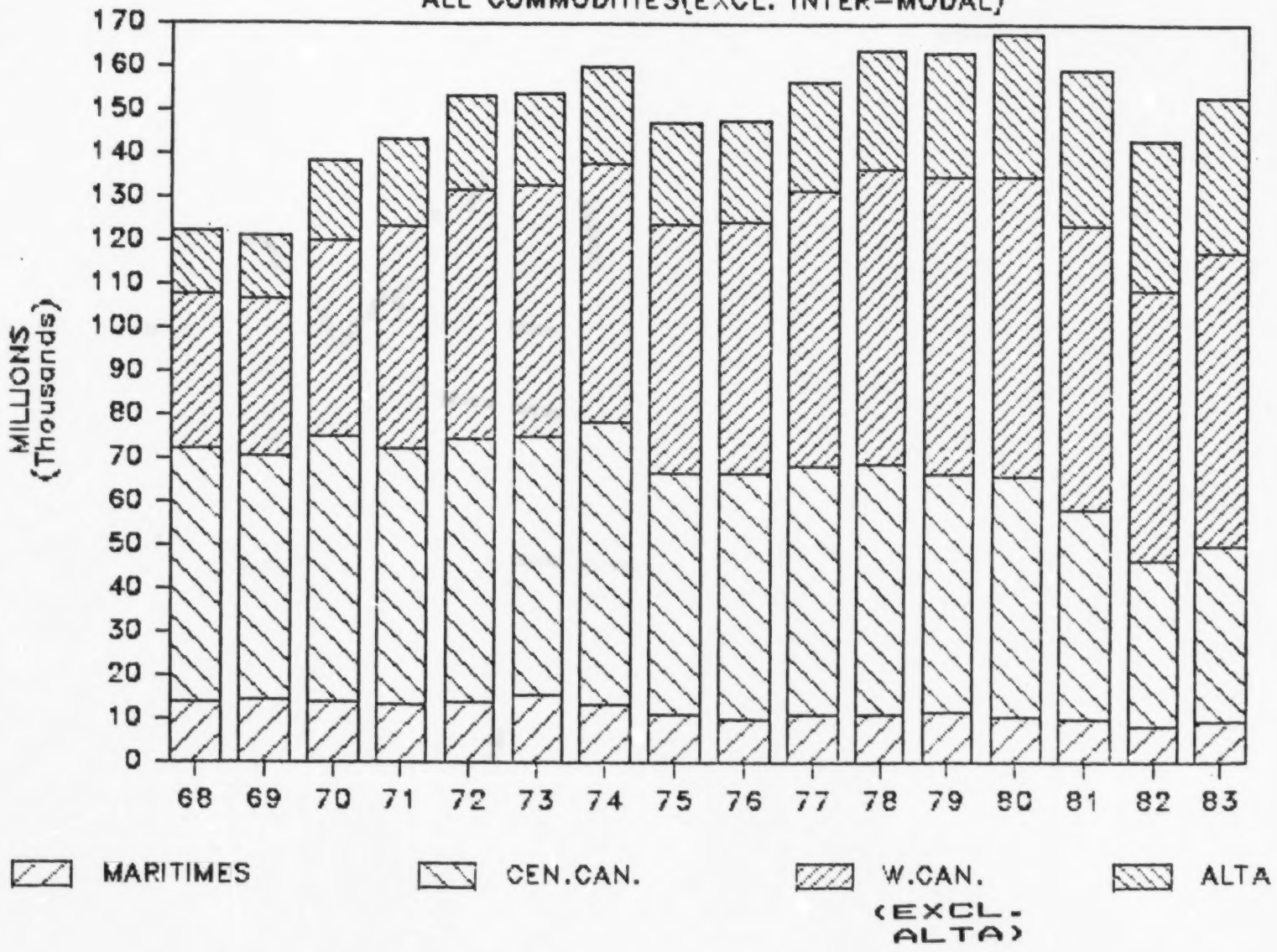
The federal discussion paper basically offers a regulatory package for rail which has the following three components: measures to encourage intermodal and intramodal competition; provisions for resolving disputes between shippers and carriers; and an alternative approach to providing branch-line services deemed necessary in the public interest. In so far as they go, Alberta supports all of these initiatives. However, for the policy and regulatory package where rail is concerned to be complete, it must also include a fourth component: measures to reduce the overhead (constant cost) burden on western traffic.

Putting these four components together into a new policy and regulatory framework requires a careful re-balancing of the roles of the market place and regulation. While there are definite opportunities for a greater role for market forces in making resource allocation decisions in transportation, the absence or weakness of competition in many areas, particularly in western Canada, means that a significant role for rail regulation persists. To ensure that regulation has the least impact on the market place, Alberta believes that any regulatory provisions should take one of these two forms:

EXHIBIT 10

TOTAL TONS LOADED — BY REGION

ALL COMMODITIES(EXCL. INTER-MODAL)



1. Regulatory Standards: This approach features regulatory action strictly on an "exception" basis rather than as a matter of course, and allows enforcement by periodic review or inspection.

2. Dispute Resolution: This procedure would allow most commercial transactions to occur without regulatory involvement and, in some instances, would foster meaningful negotiations between shippers and carriers.

In the following sections, the various rail proposals contained in Freedom to Move are discussed relative to each of the four components described above.

5.2 Proposals to Increase Competition

Freedom to Move contains a number of proposals designed to increase the extent to which rail carriers compete for traffic in Canada. Alberta is generally supportive of the following:

1. Confidential Contracts: The establishment of confidential contracts, which could include rebates, will serve to increase the degree of competition by rail carriers for traffic. Contracts should allow the railways to be more flexible in meeting the needs of individual shippers, and should also facilitate long-term planning by both the carrier and the shipper.

   Confidential contracts should be allowed for all traffic and should cover all aspects of transportation, including limitation of liability. There must be a provision for release of contract information to the proposed "Regulatory Agency", which should conduct and publish an on-going review as to the impact contracts are having on the various regions, commodity types and industries. The regulator should also be alert to predatory pricing and to transactions not carried out at arm's length.

2. Collective Railway Pricing: Alberta supports the proposal to repeal Section 279 of the Railway Act, which currently enables the exchange of information and the establishment of common rates among the railways, and Section 32(2) of the Transport Act, which requires collective pricing for agreed charges. While it is not mentioned in the federal discussion paper, it is presumed that the railways will be able to meet to discuss through rates for joint-line movements.

   It is recognized that opportunities for increased competition in Alberta will be limited, even with the removal of the above legislative sections. As pointed out earlier, the existence of only 10 interchange points within the province means that the more remote locations, from which most of Alberta's traffic originates, will continue to be captive to one rail carrier. Nonetheless, it is important to create a competitive transportation environment wherever feasible.

   The crown corporation issue also is a central concern in the collective pricing issue, and one which increases as intramodal competition is encouraged.

3. Interswitching Limits: The discussion paper is silent on the issue of interswitching limits, despite the fact that considerable discussion has occurred across Canada over the past two years. It would appear the assumption has been made that the proposals for joint running rights and proportional rates are sufficient to address the question of how best to adjust interswitching limits and costs.

   Alberta does not believe that proportional rates or joint running rights can replace the potential benefits for increased

competition attainable through expanded interswitching limits. Alberta sees a need for the expansion of the current four-mile interswitching limit to a more flexible system which takes into consideration the requirements of the area being served. Alberta hopes that the current CTC review of the interswitching issue will be completed soon.

4. Joint Line Rates: Irrespective of the final resolution of the interswitching question, there remain shippers who cannot obtain access to competitive railway service by means of interswitching arrangements. Freedom to Move (p.36) proposes "...to allow shippers captive to one rail line to have access to the lines of competing rail carriers, through provision in legislation for a joint-line rate from the traffic's origin to its destination."

   Alberta believes that this concept has merit for some small and medium-sized shippers located reasonably close to an interchange point, but is unlikely to be of value to large resource shippers who utilize unit or solid-train services. Effective implementation of this concept will require resolution of a number of difficult, practical problems. For this reason, Alberta suggests that the Federal Government give this further study and make a detailed proposal available for public comment.

5. Tariff Publication: Tariffs provide a very important source of information to transportation users. Consequently, tariffs should continue to be published and, upon request, distributed to the public.

6. Cost Disclosure: Similarly, competitive price information contributes to increased efficiency in the market place. With the provisions for confidential contracts, information unfortunately will be taken out of the rail transportation market place.

Cost disclosure is important in the Canadian rail industry even where normal, published rates are involved. A shipper wanting to use rail transportation has, at best, two carriers from which to obtain rate quotations; in other modes of transport, which utilize publicly-owned infrastructure, it is normally possible for a shipper to obtain a number of competitive quotations.

In this context, cost disclosure can be viewed as a surrogate for competitive price information. For many years, the Americans have recognized the importance of having detailed, publicly-available railway cost data. Serious consideration should be given now to requiring the new regulatory body to publish basic railway cost data in a form usable by shippers.

5.3 Proposals to Increase Shipper Protection

One of the major characteristics of Alberta rail traffic, as identified above, is the relatively-limited opportunity for shippers to benefit from increased competition. Effective regulatory protection is required to provide shippers with greater bargaining leverage with the railways during rate negotiations; to resolve disputes between shippers and carriers; and to provide a "safety net" to shippers to protect them from the possibility of rate increases motivated by a loss in revenue on traffic which benefits from increased intramodal competition.

The federal proposals, if properly implemented, could provide shippers with an effective regulatory procedure for resolving periodic rate disputes. However, the proposals are insufficiently developed to be given unqualified support. Further discussions and consultations on the implementation of these proposals should be undertaken.

At this time, the following comments are offered relative to each of the shipper protection proposals:

1. Mediation: Mediation has the potential of being a very valuable service to shippers and carriers. It could be considered as a prior step to arbitration, or to use of Section 23 of the NTA, wherein the mediator could recommend either course of action.

2. Final Offer Arbitration: Alberta has always supported the concept of arbitration as a fast, effective mechanism for resolving shipper/carrier disputes. It certainly has the potential of being a useful tool for ensuring that negotiations are carried out in good faith by both parties, and for resolving disputes concerning incremental rate issues.

   To be effective, access to arbitration should cover disputes over ancillary and other charges assessed by the railways, and service considerations. Other issues which must be considered before an arbitration process is finalized include: the applicability of final-offer arbitration to multi-issue disputes; the need for a screening process to limit access to arbitration; the appropriateness of publishing the arbitrator's final report; and the desirability of having a set of criteria by which decisions can be tested.

3. Section 23 Appeal Provision: Alberta has always maintained that the procedure under Section 23 of the NTA is too lengthy and costly to be an effective avenue of appeal for shippers. Proposed revisions to Section 23 to expedite the process, to provide for refunds of rates, and to open the process to shippers served by one carrier of a single mode are all positive.

Shortening the time lines, however, will not in itself reduce the complex nature of these cases. To a large extent, the complexity of Section 23 cases arises out of the requirement to demonstrate that "an act or omission on the part of the carrier or a rate established by a carrier prejudicially affects the public interest". A great deal of effort could be saved if this requirement were better defined.

The discussion paper (p.55) goes part way when it states that Section 23(3) will be amended to include "specific protection for shippers served by one carrier of a single mode". Additional definitions of "prejudiced" acts, omissions or rates would greatly enhance the usefulness of this section of the Act.

Freedom to Move is not clear as to whether, or how, shippers adversely affected by an agreement between another shipper and carrier can appeal. Section 23 could be used as a vehicle for resolving these "third party" disputes.

4. Reparations: The proposal to include reparations is essential, in Alberta's view, to the provision of effective and timely procedures for resolving disputes. Consideration also needs to be given to the enforcement of the rate- and service-related findings of the arbitrator or regulator.

5. Common Carrier Obligations: Alberta agrees with the proposal to retain the common carrier obligations set out in Section 262 of the Railway Act, unless waived as part of a confidential contract.

5.4 Branch Line Services

Alberta agrees with the need to examine branch-line abandonment and subsidy procedures for all branch lines, including grain-dependent lines. It is clear that the existing branch-line subsidy program, and

the current treatment of these lines under the Western Grain Transportation Act, has fostered the retention of inefficient transportation services.

Alberta supports the overall branch-line policy outlined in the CTC's recent Report on the Inquiry into Railway Branch Lines. The principles of informed branch-line user choice of alternative feeder services, without physical or economic penalty, is consistent with Alberta's position.

The suggestion that current subsidies be made available to finance alternative facilities and services which provide lower costs than conventional branch lines is a positive development. However, as an alternative to the payment of on-going subsidies, a preferable option may be a one-time, present-value type of direct payment to compensate users for economic losses incurred as a result of a change or loss of service.

5.5 Reduction of the Freight Rate Burden on Western Canada

Reduction of the freight rate burden on western Canada could be easily accomplished if railway sustainability were not also an important consideration. What is required is a balancing of efforts to shift the burden away from the west while, at the same time, giving the railways sufficient opportunity to make up any lost revenue. Specific items are the following:

1. Maximum Rate Regulation: It is proposed that a maximum contribution level for rail rates be set. This limit would be applicable where the railways could not demonstrate the existence of effective competition. To ensure that there is sufficient time to act on other proposals made below, Alberta suggests that the maximum be phased in over a period of time. While the appropriate maximum would have to be determined, Alberta envisions a maximum set at a uniform mark-up and applied

to the actual variable costs of a specific movement. This proposal differs from the dispute-resolving procedures in that it focuses on the overall level of the rate as opposed to periodic rate changes.

2. Cost Deregulation: The railways should be provided with greater flexibility to reduce their operating costs by eliminating or simplifying regulatory approval procedures. For example, public safety could be protected with streamlined procedures which focus on setting acceptable standards rather than on a process of continuous review.

3. Compensation for Imposed Public Duties: Branch lines are not the only imposed public duty affecting the railways. In addition to the obvious losses incurred by Terra Transport, there are other areas where traffic density has dropped to the point where secondary main lines may no longer be economic. These services need to be identified and reviewed; if they are necessary in the public interest, a direct subsidy should be paid. For CN Rail, these imposed duties would include services which are required by the Crown due to public policy considerations.

4. Minimum Rate Rule: The discussion paper proposes the phasing out of the minimum rate rule, established to protect truckers from predatory rail pricing, over a five-year period. Alberta believes that the minimum rate is based on a sound economic concept and recommends that it be retained. However, the setting of the minimum at long run variable costs is unrealistic for an industry which has chronic excess capacity in many areas. Adherence to the existing minimum rate regulation may be causing the railways to turn down traffic which, in the short and medium term, would make a contribution to railway earnings. Therefore, Alberta recommends that, in those instances where it can be shown that there is excess capacity, the minimum be set based on short-run or "out-of-pocket" costs.

5. Shared Running Rights and Joint Track Usage: Alberta views shared running rights and joint-track usage as two significant methods of reducing both capital and operating costs.

A provision for joint-track usage is usually associated with main line rail operations where joint use of a section of track by two or more carriers would avoid duplication of infrastructure and prevent significant additions to the railways' cost base. In this respect, joint-track usage is geared not to increasing competition but to reducing carrier costs and improving efficiencies in the system - and thereby reducing shipper costs. The Fraser River Canyon is a good example of a situation in which joint-track usage could provide significant cost savings to the railways and, ultimately, to shippers.

The proposal for shared running rights has significant potential for reducing operating costs and improving service on main lines or within specific terminal areas. However, the cost savings to individual shippers resulting from shared running rights are not likely to be significant enough to elicit action by the Governor-in-Council, as proposed in the discussion paper. Consideration should be given to an alternative method of pursuing these savings.

6. User Charges on Government Funded Infrastructure: As providers of infrastructure for the air, marine and highway transportation systems in Canada, government recovery of costs through user charges varies considerably from mode to mode. Because rail carriers must recover all of their own infrastructure costs, any adjustment in the level of user charges in the other modes must be carefully considered as to impact on the railways' ability to compete within the transportation system.

5.6 Other Rail Issues

The revisions proposed in Freedom to Move will significantly alter the requirements for railway cost information. A review of costing regulations with a view to their simplification would be desirable. Some aspects of the legislation governing railway costing should also be reviewed. For instance, the requirement that CN Rail use CP Rail's capital costs for rate regulation purposes should be assessed.

6.0 AIR TRANSPORTATION ISSUES

6.1 Introduction

In its submission to the CTC hearings into domestic and transborder air fares held in March, 1984, Alberta endorsed a relaxation of air fare regulation and a streamlining of air service regulations to improve air carrier innovativeness and flexibility, while still retaining a basic service network. Since that time, the momentum for deregulation has grown.

Freedom to Move has built upon deregulatory proposals which originally appeared in the "New Canadian Air Policy". While some of the proposals in the discussion paper are logical and their adoption probably inevitable, others seem to initially hold the promise of deregulation but require careful examination if they are to be successfully implemented. Nevertheless, Alberta supports the intent of the proposals and remains confident that the major issues can be successfully resolved.

6.2 Regulation of Entry

The proposed removal of the administrative obstacles to market entry, which remained after the adoption of the "New Canadian Air Policy", would complete the process of regulatory reform, significantly reduce

costs to airlines and government alike, and greatly improve airline responsiveness to changing market conditions. Nothwithstanding the goal of fostering competition associated with this proposal, Alberta maintains some reservations concerning the assumptions underlying this goal. For example, the assumption that the removal of regulation and reliance on market forces will necessarily produce greater competition needs critical examination, mainly because the structure of Canada's air industry and markets varies considerably from that of the United States. Canada's air industry can legitimately be characterized as an oligopoly, dominated by a huge crown corporation, namely Air Canada. Our air markets are comparatively small and, for the most part, ill-suited to the hub-and-spoke service pattern now commonplace in the U.S.

The pace of concentration in Canada's airline industry has accelerated recently and would not likely abate with the adoption of this proposal. Most new entry will likely occur at the smaller carrier end of the industry scale and/or in the dense markets, where the majority of price competition will take place. The cost of such competition may well be borne by the balance of the overall market. Above all, the dominance of Air Canada will have to be minimized if long-term gains are to be realized from deregulation.

6.3 Ownership and Financial Requirements

The proposed removal of regulations pertaining to the financial structure of airlines is consistent with the philosophy of reliance on the market place to determine financial success. A corollary to this position, however, is the recognition that the freedom to assume financial risk must necessarily involve the freedom to fail financially.

The proposal that air carriers be required to maintain a minimum level of liability insurance is sound.

6.4 Regulation of Tariffs and Pricing

The determination of justifiable fare increases on the basis of a review of a carrier's costs has never been wholly successful in the past, and a requirement to consider the influence of competition will further frustrate the process. The result of unfettered price competition might well be that dense markets experience more fare options than their less-dense counterparts. Notwithstanding these potential differences, the reliance on competitive factors, both actual and potential, should impose an upward ceiling on fares in both dense and less-dense markets.

International fares, which reflect the monopolistic nature of a designated carrier, should continue to be regulated under the existing bilateral agreements.

Freedom to Move proposed that fare increases be appealable under Section 23 of the NTA. Alberta proposes instead that freedom from tariff filing extend to both fare increases and decreases, and that the determination of air fare levels be made solely by the market place in all situations except those involving service to remote, isolated points where no competition or realistic transportation alternative exists. In addition, Alberta supports the principle of retaining regulatory control of international tariffs.

6.5 Regulation of Exit

The proposal to restrict market exit by requiring advance notice suggests that the Federal Government perceives a continuing need to maintain stability of air service through external means. Alberta shares the aim of stabilizing air markets through the smoothing of the transition between carriers. The challenge under this proposal will be to create an environment within which air carriers can exit markets at their discretion without necessitating additional regulation (i.e., to determine the justification for the next exit), and without creating a situation which requires extensive subsidies.

Alberta does not consider that the proposed imposition of a 30 or 60 day advance notice requirement for exit is appropriate. Further discussion is recommended to address the limitations of this mechanism.

6.6 Service to Remote Locations

Alberta is concerned that an unfettered competitive environment for air transportation could result in the unwanted discontinuance of essential air service, or at least in the disruption of service continuity. While Alberta views its air services as reasonably healthy and likely to be able to weather competitive pressures, the province nevertheless recognizes that this is not necessarily the case in other regions of Canada.

Alberta therefore recommends that the Federal Government, in consultation with the provinces, create a mechanism which will safeguard the integrity of air service to remote locations. While the proposal to use a bid or tender approach has intuitive appeal, it requires considerable work in order for it to be effectively implemented.

6.7 Powers of Retaliation Against Foreign Carriers

Alberta supports the proposal to create legislation empowering the Government of Canada to retaliate against actions jeopardizing the safety of international civil aviation. Alberta also supports the principle of providing Canada with the legislative authority to retaliate against "unfair and discriminatory" commercial practices in international civil aviation. However, Alberta recommends, particularly in view of recent initiatives to deregulate transborder air services, that work be undertaken to clarify the meaning of "unfair and discriminatory".

6.8 International Routes and Bilateral Route Negotiations

The proposal to create legislation authorizing the Minister of Transport to designate Canadian air carriers on international routes will formalize a procedure which has been in effect for some time.

Of considerable interest to Alberta is the current mechanism for negotiating bilateral air agreements. At present, there is no meaningful role for either the affected communities or provinces to play in this process. To ensure that the terms of the negotiated agreements reflect the needs and concerns of these interests, the opportunity for effective participation needs to be provided.

6.9 Airport Ownership and Operations

The Federal Ministerial Task Force on Program Review ("Neilsen Task Force") is currently examining federal programs to determine their appropriateness and to assess ways by which they can be rationalized. This exercise has, as its primary focus, the reduction of expenditures. The Task Force is exploring the feasibility of transferring some federally-owned and operated airports to local authorities.

Both Edmonton and Calgary have expressed interest in assuming control over their local airports and in taking part in a pilot project. Depending upon the terms and conditions under which such transfers would take place, there could be very significant impacts for the travelling public, and for regional economic development. Alberta's position is that the manner in which the airports are transferred should not result in cost transfers to provincial or local governments. Other issues to be resolved include the funding of future capital projects and the sharing of revenues.

The manner in which these issues is resolved must be consistent with the environment created by deregulation. The U.S. example may be instructive. Prior to deregulation, it was common practice for local U.S. airport authorities to finance airport investment using bond

issues, with air carriers guaranteeing the issue. With deregulation, air carriers were free to acquire and drop routes, thereby removing some of the historical security of tenure enjoyed by airport authorities.

With the deregulation of Canada's air industry and the concomitant establishment of local airport authorities, the generation of affordable capital for airport development may become difficult. This could have financial implications for Alberta.

Since the transfer of some or all of the airports that are operated by the Federal Government could affect the system of integrated airports currently enjoyed by Canadians, Alberta advocates the creation of two pilot projects, one in western and one in eastern Canada to test the validity of the local airport authority concept. It would be necessary during this test for the Federal Government to maintain financial support, with a view to reducing or eliminating the federal role should the test prove successful.

6.10 Ticket Tax

Alberta recognizes the need to recover the costs of providing the nation's air transportation system but believes that the cost recovery exercise should strive to be equitable. The recent abolition of a ceiling on the tax places a burden on the long-distance traveller which correlates poorly with the actual cost of providing the service. Transportation costs usually taper with the distance travelled, the average cost per mile becoming less with additional distance. This relationship should therefore be replicated in a transportation tax. A more equitable treatment would be a return to a maximum level of tax per trip, or a series of tax rates which were progressively lower with longer journeys.

6.11 Cargo Service

The removal of controls over air pricing and market entry should be extended to air cargo in order to encourage greater competition and a broader range of price/service options to users. This is especially important given that the air cargo industry is currently experiencing significant growth world-wide, and has excellent prospects for the future as more and more industries look towards "just-in-time" production and distribution strategies.

Increased competition could force air carriers to operate smaller aircraft so as to match capacity with market demand. Given that most domestic air cargo is carried on passenger aircraft, and given that wide-body passenger aircraft are able to carry both greater volumes and more sizes of air cargo, any downsizing of passenger aircraft would reduce the capacity of air cargo service available to smaller centres. This may be acutely felt in Alberta, which already has a limited supply of wide-body flights.

Changes in air cargo policy and regulation should take this problem into account. Other requirements include better data and the ready incorporation of new cargo-handling techniques into the Canadian operating environment.

7.0 MARINE TRANSPORTATION ISSUES

7.1 Introduction

Canada's marine transportation policy has evolved much more effortlessly than policy in the other areas of domestic transportation, due mainly to international influences. International conventions concerning limitations of liability, the policy of Third World countries to encourage the development of domestic merchant marines, and the head-to-head competition with U.S. ports are a few examples of these influences.

Canada's marine transportation policies will have to remain responsive to activity in the international arena if Alberta and other Canadian exporters are to be successful in reaching offshore markets in a competitive manner.

7.2 Shipping Conferences Exemption Act

While the existence of the Shipping Conferences Exemption Act of 1979 appears to contradict the trend towards competition by condoning the existence of cartels, Canada's shipping requirements are not sufficiently mature to support a totally-competitive system. Certainly, a major reason for Canadian support of conferences is their role in rationalizing and introducing greater efficiency to liner service, and the recognition that we are part of an integrated, world-wide transportation system.

Any changes to Canada's transportation legislation must take into consideration the fact that a healthy liner service industry is needed to ensure that Alberta exporters have the capacity to reach foreign markets, and that compatibility between Canadian legislation and the U.S. Shipping Act of 1984 must exist if Canada is to continue to have adequate service at competitive rates.

Because liner services to and from Canada are intricately linked with those serving the U.S., Canadian policy cannot be substantially different from that of the U.S. Where differences in policy exist, any new legislation must recognize the right of steamship lines to take independent action and allow shippers to form into groups for rate and service negotiation purposes.

7.3 Canadian Ports Policy

The Canada Ports Act of 1982 was designed to provide a cohesive piece of legislation guiding ports policy on a national basis, while

providing local autonomy to ports which were self-sufficient. Since passage of the act, there have been significant differences of opinion as to what constitutes autonomy and who is in the best position to interpret local and regional interests. This has been further complicated by an amended Financial Administration Act as it affects crown corporations. These amendments are designed to give the Federal Government greater control over its crown corporations. In particular, this reflects the Federal Government's keen interest in reducing the deficit through "dividend" income and through the disposal of valuable port lands which, in the past, have been kept for long-term port use.

A ports policy which promotes autonomy and reflects national objectives must recognize these issues:

1. Autonomy Versus Centralized Control: While unguided autonomy of Canadian ports could create an erosion of port services, due to destructive competition arising from excess capital expenditures or duplication of port facilities, centralized control will reduce the effectiveness of ports in dealing with local and regional interests, and at the same time will lessen their flexibility in dealing with competition from U.S. ports.

2. Port Land Inventories: The generation of funds from the disposal of port land inventories, and the appropriation of port revenues to service Canada's deficit (or for other uses not of direct interest to the port user), are counterproductive to long-term local and regional interests.

3. National Interest: Ports which are not currently self-sufficient, such as Churchill, have value and potential in the national interest and therefore require active programs designed to promote self-sufficiency.

7.4 Marine Freight Transportation in the North

Historically, the need for government involvement in northern transportation has reflected the lack of maturity in the market where water transportation services are concerned, and the desire to ensure that northern Canadians have access to a standard of living comparable to those in more southerly locales. The lack of a mature market and the geographically-dispersed base of users dictates the need of special treatment of marine transportation.

Alberta supports a transportation system in the north which recognizes the special development needs of northerners, combined with competitive services at cost-effective levels. The MacKenzie transportation corridor plays an important role in meeting these needs and federal policy must be sensitive, therefore, to these considerations in both the short and long term.

7.5 Coasting Legislation

The economic implications of current legislation, which reserves coasting cargo for Canadian flag or Commonwealth flag vessels, has been vigorously argued by users and steamship operators sharing opposing views. Users often consider reservation of cargo in this manner as protection of less-efficient, more-costly operators, while steamship lines argue that the employment benefits and economic spinoffs of a strong, Canadian-owned and managed fleet outweigh the costs to users. Both groups recognize the need for a waiver system which allows foreign vessels to serve where Canadian ships are not available. The impact of the coasting legislation was extended in 1984 when the "Customs and Excise Off-Shore Application" was amended to apply to resource exploration and exploitation.

The implications of the current coasting legislation are:

1. Protection of Canadian Shipping Companies: If the costs of expensive, Canadian-built vessels in the coasting trade, and of duties to foreign vessels, are passed along to shippers in the form of higher rates, the competitiveness of these products in the market place will be reduced and consumers will pay higher costs.

2. Duties on Specialized Equipment: The assessment of duties on specialized equipment not manufactured in Canada for exploration and exploitation of offshore resources can act as a deterrent to the development of Canada's resource base and the growth of industries involved in frontier resource development.

3. Canadian Shipbuilding Industry: The coasting legislation, in effect, provides a subsidy to the Canadian shipbuilding industry.

Alberta supports, in principle, freedom of entry and as such considers the waiver system as a necessary requirement for ensuring that Canadian shippers and the offshore resource development industry are adequately served. The inherent cost of such a system must be viewed with regard to direct and indirect impact on the user and the direct benefits which accrue to other segments of the economy. If Federal Government policy is to use coasting legislation to encourage the growth of the domestic shipbuilding industry, attention should be paid to ensuring that the full benefit is received by this industry and not lost to intermediaries.

8.0 EXTRAPROVINCIAL TRUCKING ISSUES

8.1 Introduction

At the time of passage of the Motor Vehicle Transport Act (MVTA) in 1954, federal economic regulatory responsibilities were delegated to the provinces. In the ensuing years, Alberta and the other provinces have pursued individual courses in regulating the trucking industry. With the signing of the "Memorandum of Understanding" on February 27, 1985 by the Council of Transportation Ministers, significant progress was made towards implementing the first phase of regulatory reform of the extraprovincial trucking industry. Items agreed upon included: shifting the burden of proof on entry from the applicant to the respondent; eliminating rate approval; creating a list of commodities exempt from control; standardizing provincial regulations; and easing entry and exit requirements.

8.2 Motor Vehicle Transport Act

The Federal Government proposes to revise the MVTA to reflect the specific items contained in the Memorandum of Understanding. Alberta supports the intent of the reforms, as outlined in the memorandum, but does not believe that provincial motor transport boards should be bound by the exact wording contained therein. Regulatory reforms to the MVTA having to do with extraprovincial trucking should instead be dealt with in a general way.

Alberta uses different entry criteria for intra- and extraprovincial applications. While Alberta has never been successfully challenged in the courts on this practice, it might be useful to have it legitimized within the MVTA.

Consideration should be given to clarifying the section on penalties. While the act states (in part) "guilty of an offence and is liable on summary conviction to a fine of one thousand dollars", most courts have interpreted this section to say up to a maximum of one thousand dollars. The intent, as regards the level of the penalty, should be

made more precise. Given that the responsibility for administering the act has been delegated to the provinces, any proposed changes should be reviewed by the Council of Transportation Ministers before being placed before the House of Commons.

8.3 National Transportation Act: Part III

While Part III of the NTA has provided, since 1967, for federal control of extraprovincial trucking, it has not been proclaimed in regulation, and the provincial boards continue to exercise their delegated authority by regulating extraprovincial trucking in "a like manner".

The discussion paper proposed to change the entry criterion in Part III from a test of "public convenience and necessity" to a "fit, willing and able" requirement. The proposed change should be co-ordinated with the provinces' switch from "public convenience and necessity" to "fitness" only.

Alberta supports the proposal to remove the control of rates and fares from Part III.

8.4 Other Extraprovincial Trucking Issues

Carriers have expressed concern about the greater reliance that is to be placed upon increased competition, especially when two of their major competitors, CN Rail and CN Route, are part of a large crown corporation. Of particular concern is CN Route, which is operating at a very substantial loss. While there may be little, if any, evidence of predatory pricing in this situation, the threat to privately-owned truckers nevertheless remains.

While the trucking industry, as a whole, is adaptable to changes in the economic environment, a crown corporation such as CN Route can

seriously distort the market place and undermine the industry. Alberta recommends that CN Rail be required to divest itself of the trucking segment of its operations, or gradually wind down its operations should they continue to experience the substantial losses of the recent past.

9.0 COMMODITY PIPELINE ISSUES

The Federal Government proposes to greatly relax the regulatory process for licensing commodity pipelines. There will be a "fit, willing and able" requirement to be met for entry, but no rate regulation.

Alberta supports the proposals, recognizing that these transportation facilities do not operate, in most cases, as common carriers. In addition, the freedom from rate regulation could be an important factor in the development of large-scale commodity pipelines for such products as coal-slurry mixtures.